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# BRITISH BLOCK GRANTS AND CENTRAL-LOCAL FINANCE

By

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## PREFACE

A brief word of explanation should be offered before presenting the materials in the following chapters. The subject of the block grant and its significance in the field of central-local fiscal relations was first encountered in Professor Morris B. Lambie's administrative process seminar at Harvard University in 1939-40. Much of the material in the first few chapters was worked up at that time with the idea of including it in a thesis on fiscal capacity of local government. The pressure of teaching duties, followed by four years in government service and the U. S. Army, prevented its completion.

When work on the subject was resumed, it was decided to expand the block grant study, bring the data up to date, and especially to observe the impact of World War II on local government finance. Moreover, the postwar reconstruction plans of the British government will have profound effect on the future position of local government. Chapter VIII was therefore introduced to cover those developments. In general the central problem is the evaluation of the Local Government Act, 1929, and more specifically its block grant feature.

An explanation of the sources of data is also necessary. During the war years, publication of official statistics by H. M. Stationery Office was suspended. There is normally a three-year lag between the events of a given year and the publication of *Local Government Financial Statistics* pertaining to that year. Thus the data for 1936-37 were published in 1939 and are the last available. The *20th Annual Report* of the Ministry of Health for 1938-39 was published in 1939, and is the last complete report. The third basic source of primary data, *Rates and Rateable Values* also published by the Ministry of Health, last appeared for 1938-39, though one for 1944-45 is lately off the press.

It so happened, however, that while the data were not officially published due to wartime paper shortages, they were collected and evidently circulated in mimeographed form to a limited number of local government associations. It has been a



reprint official statistics in their monthly or annual publications. Consequently innumerable references will be made in the following chapters to such items as *Municipal Yearbook*, *Municipal Journal*, or *Local Government Finance*. While these are secondary sources, yet they really furnish primary data, being mere reprints of the official statistics released by the Ministry of Health. By using these primary data, located in secondary sources for the years since 1938-39, it has been possible to complete the study.

Finally the writer is indebted to Professor H. H. Burbank for reading portions of the manuscript and for his encouragement and friendly prodding along the way.

R. E. C.

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May, 1946

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## CHAPTER I

### INTRODUCTION

The perennial problems of local government finance are a common heritage of local government administrators in most modern countries, and the numerous attempts to deal with them often give rise to parallel systems of central-local fiscal relationships. The familiar dilemma of ever expanding services in the face of limited, if not fixed, resources, has been met in Germany, France, Canada, the United States, and Great Britain. While the specific conditions may vary, the basic problem is identical. Moreover, attempts to resolve the dilemma often follow a similar pattern though at different intervals of time. Thus local government in some parts of the United States today is approximately at the same stage, financially, that local governments were in Great Britain in 1888. There are earmarked tax revenues, shared taxes, and specific grants-in-aid from state and federal governments. Increased attention was given to this problem in the ten years prior to World War II when local tax bases shrank, and revenues fell substantially, while the demand for local expenditures increased. Yet there has been no over-all program for the development of state-local relationships; each case has been met with *ad hoc* legislation designed to alleviate the immediate situation.

A number of these vital questions in local government finance will soon be pressing for solution after being shelved temporarily when full employment and the record national income of war production has swollen local treasuries. One of the devices currently considered as a "solution" is the grant-in-aid from a central government to defray a substantial part of the cost of local services. The grant device has been widely discussed in the literature and it is not intended to survey this field again. As various authors define grants-in-aid somewhat differently, confusion may be avoided in the grant terminology used in these chapters by a classification which defines terms and differentiates one type of grant from another. The classification table<sup>1</sup> given below seems most satisfactory, for it

reflects: (1) source of revenue, that is, general or specific taxes; (2) uses to which the subvention may be put; (3) factors determining the amount of aid; and (4) the degree of control.

- I. Shared tax: the amount of which is determined by the yield of a specific tax
  - A. Earmarked—with a specified purpose for spending
  - B. Free revenue—having no restriction on expenditure
- II. Grant-in-aid: the amount of which is determined independently of a tax yield
  - A. Fixed—no change in amount from year to year
    1. Block grant: having no restrictions on use
      - a. Conditional: all or part withheld if local authorities fail to perform specified tasks at specified standards
      - b. Unconditional: no administrative discretion
    2. Allocated grant: for a specified purpose
      - a. Conditional
      - b. Unconditional
  - B. Variable: the amount varies with expenditure or need
    1. Block grant
      - a. Conditional
      - b. Unconditional
    2. Allocated grant
      - a. Percentage grant—the amount varies with expenditure
        - (1) Conditional
        - (2) Unconditional
      - b. Equalization grant—the amount varies with need
        - (1) Unit grant: varies with objective measures and may be either conditional or unconditional.
        - (2) Formula grant: based on a combination of several units, and may be either conditional or unconditional
        - (3) Discretionary grant: With distribution left entirely to administration, and may be either conditional or unconditional

The history of central-local finance in Great Britain contains examples of most of these grants, but the central problem of this investigation concerns a relatively new approach introduced in 1929. This new device familiarly known as the "block grant," involves a lump sum paid to a local government from

ditions as to how or where the money shall be spent. It was widely acclaimed as pointing the way to a permanent solution of the local fiscal problem. One of the points to be observed is that the existing system in Great Britain is not a unique plan which, like Athena, sprang full grown from the head of some financial Zeus. It represents the more or less logical outcome of a long cumulative process of trial and error. Consequently the present arrangement cannot be fully understood without some brief consideration of preceding systems. As will be seen, this problem of subventions to local governments is an old one for Great Britain and in the failure of earlier efforts may be found the seeds of the present system.

Preliminary studies of the block grant, made eight to ten years ago, dealt with its background and its use during the early years of operation.<sup>2</sup> The situation is now ripe for an overall view of the 1929 program, since fifteen years' experience offers ample data with which to judge its effectiveness. Moreover, the outbreak of World War II in September, 1939, precipitated a host of new problems and burdens on local government. These new burdens served to break the precarious financial equilibrium of the 1930's and left central-local relations in something of a vacuum at the end of the war. Fundamental questions concerning the scope and nature of local government are now being asked in Great Britain.

In addition to the financial pressure generated by the war years, expansive projects are being formulated for postwar reconstruction. Any single program, be it health, education, or social insurance, will have a profound effect upon local budgets, rate burdens, and the distribution of services between central and local governments. The cumulative effect of these reforms is prodigious. Consequently a great clamor is abroad in Great Britain for a thorough overhaul of the entire central-local fiscal relationship.

In 1932, shortly after the new program was launched, a Parliamentary Committee viewed with considerable alarm the magnitude of local commitments. The increased expenditures "call for very serious thought and indicate that a very heavy

<sup>2</sup> Mahal Newman, *Central and Local Government in Great Britain* (London, 1937).

burden has been placed on the private citizen.”<sup>3</sup> Since the committee’s concern was based on the increase that took place to 1930, one can only wonder what their reaction would have been had they foreseen the events of the next decade.

## LOCAL AUTHORITIES IN ENGLAND AND WALES

Year ending March 31	(Millions of £)		
	Rates	Grants	Total
1920	£113.1	£ 47.9	£161.0
1930	154.9	107.5	262.4
1940	201.3	181.9	383.2

Their conclusions placed the primary blame upon Parliament and the central departments for their

tendency to aim at perfection and uniformity, and inadequate allowance is made for local needs and circumstances. . . . We feel strongly that the time has come when a halt should be called to legislation involving local authorities in fresh expenditures.<sup>4</sup>

The secondary blame was placed upon the use of percentage grants which presumably caused too great an extension of services and increased expenditures. Yet as will be seen, the bulk of the expansion from 1930 to 1940 occurred without benefit of percentage grants. These grants increased ten million pounds while expenditures financed from rates increased fifty million. Evidently this surge of local spending was more fundamental than the 1932 analysts realized. By their diagnosis, cutting the easy flow of Exchequer money through percentage grants should check the spending. They therefore concluded:

The precedent established in the Local Government Act 1929 should be followed and the principle of equitable block grants extended to as many as possible of those services which are at present aided by percentage grants.<sup>5</sup>

This would encourage economy, eliminate meticulous and wasteful supervision, and leave local governments free to administer their own affairs *vis-a-vis* their needs and resources.

This obsession concerning percentage grants was shared by Parliament from the viewpoint of economy and by local govern-

<sup>3</sup> Committee on Local Expenditure, *Report*, Cmd. 4200, 1932, p. 16. (Hereafter cited as Cmd. 4200.)

<sup>4</sup> *Ibid.*, p. 16.

ments from the viewpoint of administrative freedom. The block grant device, therefore, appealed to both groups, but for different reasons.

A new diagnosis was set forth by Sir John Anderson, Chancellor of the Exchequer in the Churchill government, in an address delivered at the annual conference of the Institute of Municipal Treasurers and Accountants in June, 1945.<sup>6</sup> The older conception of local government functions has been in the nature of a dichotomy, classifying some services as local and others as national or at least quasi-national. For the latter services the paramount interest was in seeing that local authorities attained adequate standards; to that end cost-sharing percentage grants were widely employed.

The 1929 act introduced a new element by shifting the emphasis from expenditures to resources; this shift in emphasis was accompanied by a change in the criteria of government assistance. Power began to supplant duty as the Number One criterion. Previously it had been the local government's primary "duty" to supply local services in such quantity and quality as it could afford. In time it also became the "duty" of the central government to lend its resources in aiding quasi-national services to be performed with some degree of uniformity. Controversies would often arise whether a given service were local or national and whose "duty" it was to perform it, or to furnish the resources required in its performance.

If the old diagnosis turned on "duty" then the new diagnosis turns on "power." The question is no longer raised as to where the duty lies, but simply, who has the resources and ability to perform a service. In short, who has the power? In the past a certain formal distinction was observed between duty and power, and innumerable compromises were made, marrying the two by means of grants. But they clung to the old fiction of national duty and local duty so that grants could never be made for the latter. Now when power is recognized as the ultimate and decisive factor, these strained distinctions fade away. The citizen has come "to expect a high standard of provision of local service suffering only such disadvantages as his geographical location inescapably involves." As Sir John



Anderson put it, "The contrast between duty and power becomes less marked when public opinion insists on the adequate exercise of the power."<sup>7</sup>

There are many manifestations of the shift from duty to power in recent local government developments. Rural communities are coming to expect standards of service similar to those enjoyed in urban centers; poor areas no longer believe their poverty should restrict their range of services. The recent Scott Report on Land Utilization is an indication of the trend.

We are confident that the drift will not be stopped unless and until living conditions are on a parity in town and country . . . the supply of electricity is an essential service which in due course should be available in the home of practically every citizen—at no higher price to the consumer in the country than in the town. . . . We consider the provision of a piped water supply an essential service in every village and on every farm. . . .<sup>8</sup>

How is all this to be reconciled with the older diagnosis of local government as a framework of duties? Even Churchill in 1928 added his bit to the power thesis when, in arguing for the Local Government Act, he said:

Obviously it is wrong that the people in any district should be left without the means of providing for the necessary services approved by Parliament just because they are all poor together and have not got the money.<sup>9</sup>

The implications of this power thesis are immense but, as the following chapters will show, no settled conviction has as yet been reached in Great Britain, at least so far as central-local relations are concerned. Much of the confusion and working at cross-purposes which seem to characterize recent central-local developments results from a failure to recognize and to choose between these two mutually exclusive principles.

<sup>7</sup> *Ibid.*, p. 17.

<sup>8</sup> *Report of the Committee on Land Utilization in Rural Areas*, Cmd. 6378 (1942).

<sup>9</sup> *Parliamentary Debates*, Vol. 216, p. 851 (April 24, 1928).

## CHAPTER II

### HISTORY OF LOCAL GRANTS PRIOR TO 1888

The historical development of grants from central to local governments runs parallel to the process of sectional integration which brought separate communities closer and closer together and finally left them more or less interdependent. The welding process in turn was a result of technological change in transport and communication. Thus when the country was dotted with isolated communities having no adequate transport or means of communication, practically all services were left to local authorities since they were for local benefit and could be provided wholly from local levies. Later their responsibilities widened to include maintenance of the main roads formerly managed by private turnpike companies. As population grew and increased in mobility, more and more services became "national" in scope, such as highways, police, poor relief, and health. The expanding concept of what is a "national" service would be an interesting study in itself but can only be noted in passing, although it is perhaps the basic *raison d'être* of any grant-in-aid policy.

Almost all of the sums granted by the central government were for as many different activities as there were grants, but these group themselves into three major functions as outlined by the Departmental Committee of 1914:

1. "To provide the nation's share of the cost of semi-national services,"
2. "To correct inequalities of local tax burdens,"
3. "To enable the government effectively to supervise the administration of semi-national services."

To these a fourth objective might be added, namely, to induce local governments to provide new services or to expand services already established.

The first grant-in-aid of local administration in Great Britain was made in 1833, consisting of £20,000 to assist in erecting schools for poor children. This was a percentage grant and

required an equal sum to be provided from private sources. Strictly speaking this first subvention was not a grant-in-aid of local government, for it was awarded to two privately organized associations. However, that same year a grant was made for one-fourth of the payroll and clothing cost of Metropolitan police (London), while in 1834 the first generalized grant was made to aid in the maintenance of prisons then under the control of local authorities. It was hoped this latter grant would discourage deportations to Botany Bay with all of its attendant evils.

### EDUCATION

The various attempts to cope with the problem of financing local education demonstrate very well the trial and error method, and the gradual emergence of more modern techniques. In 1839 the annual building grant noted above was increased to £30,000, and in 1846 the first grants were made for teachers' salaries. By 1854 emerged the idea of a capita-tion grant per scholar in attendance, and in 1861 came the first serious attempt to standardize the quality of the service. The new system provided for a subvention based on the number of scholars passing an annual examination in the three R's prescribed by the central government; hence the name "merit grants."

This system was continued, and in 1870 the Elementary Education Act established the merit grant on an annual basis. The same act also provided an additional grant for needy areas where rates yielded less than a fixed rate per scholar. Thus another new principle was recognized and introduced, namely, the capacity of a local government to support its services. This notion was expanded in 1876 to furnish assistance to schools in sparsely settled areas.

The educational grant system was not included in the re-organization of 1888 which represents a landmark in the history of British local finance. Nevertheless, a new code was formulated in that same year for education which consolidated all former subventions into a single block grant known as the "annual grant," and also provided more assistance to areas with small populations. The earlier merit grant had operated to restrict the teaching of higher subjects for, obviously, if

the grant-in-aid depended solely on the number of students passing an examination in the three R's, the teachers would concentrate on these rudiments to insure a large grant the following year, and care little about other subjects.

The attempt made in 1888 to establish a single block grant for education proved short lived and almost immediately a new series of direct grants for specified purposes was made. The year 1891 marks the next new principle namely, the encouragement of free education. In that year a "free grant" of ten shillings per scholar was provided whenever the existing fees were reduced by that amount or abolished. This grant should have had some effect in equalizing conditions between rich and poor districts—a new departure for those days. In 1893 a new grant was established for blind and deaf children in special schools which was subsequently expanded in 1899 to include defectives and epileptics. These new purpose grants continued to expand with revision of the older, established grants. An act in 1897 increased the aid to needy areas and provided a grant of five shillings per scholar in voluntary schools, and relieving these schools of local rates. This grant was finally abolished in 1902 in favor of a new scheme enacted in 1906 to cover three-fourths of the sum by which net costs exceeded a rate of one shilling six pence in the pound. This was a definite spur to the expansion of school services and costs, while at the same time weight was given to the community's fiscal capacity. In 1907 block grants were again used for building new council schools, and in 1912 came another expansion in the concept of a national service, providing grants for one-half the net expenditure on meals for children, medical inspection, and care.

Only thirty years after the reforms of 1888, the educational grant system had again become so complicated that a second complete reorganization was attempted in 1918. The system was more centralized by empowering the Board of Education to establish their own regulations; all grants for elementary education were abolished and once more there was a single consolidated grant on the basis of the Fisher formula. Since there is an interest in criteria for making education grants, it may be instructive to note the several factors in this formula:

1. 41 shillings per child in average attendance;
2. 55 per cent of the teachers' salaries;

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3. 50 per cent of expenditures on maintenance, medical care, meals, physical training, and defective schools;
4. 20 per cent of all remaining expenditures.

From this liberal grant the only deduction was the yield of a rate of 7*d.* in the pound. This latter provision was doubtless an effort to recognize some differences in fiscal capacity, as the deduction would obviously be larger the wealthier the community.

The major criticism which might be offered against this method, which was still in use in 1934, is the usual argument made against percentage grants, that they penalize the poor locality that cannot appropriate much for education, while the richer authorities get a disproportionate share of Exchequer money. But more of this later.

### POLICE

The evolution of grants-in-aid for local police is also instructive in that it demonstrates the expanding notion of national services. As already noted, the first grant was made in 1833 to cover one-fourth of the payroll and clothing cost of police in metropolitan London. This provision was extended in 1856 to all provincial forces by the County and Borough Police Act of that year. The proportion was increased to one-half in 1874. These grants were conditional upon having a certificate of efficiency in numbers and discipline which was issued by the Secretary of State. Moreover, boroughs under five thousand population were not eligible for grants, so there was a great incentive to consolidate small borough forces with the county constabulary.

In 1890 a law provided £300,000 annually to police authorities in aid of police superannuation, and in 1909 the metropolitan police were given a special grant of £100,000 for the imperial services which they rendered. The annual grant of one-half payroll and clothing had been in effect since 1874, although in 1919 the amount of the subvention was stereotyped at the 1915 figure and included within a new grant of one-half the net approved expenditure of police authorities. In the reorganization of 1928, the police grant, like that for education, was left outside the block grant scheme, though these specific

police grants of earlier years were merged into one substantive grant to local authorities.

### HIGHWAYS

Grants to local authorities in aid of highways are more recent than the police or education grants, but they also demonstrate the growth of the national service concept as well as the great complexity that arises when many separate grants are made for varying purposes. There were, for example, five different highway authorities each receiving grants prior to the local government reorganization in 1888.

Apparently the Highway Act of 1878 marks the first grant of this type. It created a new class of road by providing that any road distumpiked after 1870 should be called a "main" road and one-half of its maintenance imposed upon the county. To encourage the freeing of roads from the toll bar system, an act of 1882 established a grant to the several highway authorities to cover one-half of their maintenance cost; that amounted to one-fourth of the total road cost since these authorities were already paying one-half while the counties were responsible for the other half. Just five years later a similar grant of one-half the maintenance cost was made to county justices, thus putting one-half the total highway burden on the Exchequer, counties and highway authorities each paying one-fourth. The reorganization of 1888 shifted the entire maintenance cost upon the newly created county and county borough councils which, on its face, seems to be a reversal of trend by decentralizing the burden of what is admittedly a national service.

This reversal of trend was not of long duration, however, for in 1909 a grant was provided to highway authorities for new roads and to repair existing ones. New petrol duties and a portion of receipts from motor car licenses went into a "Road Improvement Fund" to finance this new grant. In an effort to secure better qualified road officers it was enacted in 1919 that a refund of one-half these salaries would be available to highway authorities when the appointment, retention, and dismissal of road officers were submitted to the Minister of Transport for his approval. It was clearly evident what great strides had been made by 1919 in subjecting these growing

national services, education, police and highways, to the control of the central government through the judicious use of conditional grants. The specific highway grants continued in the Roads Act of 1920 which established a "Road Fund" to make grants of varying amounts, depending on the national significance of the road; thus as the law first read, Class I roads received 50 per cent of their cost; Class II, 25 per cent; and district roads none at all. These ratios were subsequently increased to 60 per cent, 50 per cent, and 25 per cent respectively for the three types of roads. Since all vehicular revenues went into this "Road Fund" account, it was a lucrative source for Treasury "raids" whenever the Chancellor needed some additional funds.

Highways generally were not included in the block grant scheme as adopted in 1929, although the maintenance grants for classified roads in London and the County Boroughs were discontinued, as well as the 25 per cent grant for unclassified roads in counties. Grants of the old percentage type were still made to counties and county boroughs for new construction and major improvements approved by the Minister of Transport, and of course, counties still got their percentage grant for the maintenance of classified roads and any improvements on the unclassified.

This somewhat detailed survey of grants in education, police, and highways seemed justified for they were excluded from the Local Government Act of 1929 and remain as separate grants made annually to the local authorities. These three represent the greatest bulk of Exchequer money distributed via the grant-in-aid device today.

There were other specific grants in this early period prior to the first reorganization in 1888 such as: 100 per cent of the cost of criminal prosecution; 50 per cent of poor-law medical officers' and teachers' salaries; a fee of one shilling per child *successfully* vaccinated; 50 per cent of sanitary officers' salaries when they submitted to appointment, regulation, and dismissal by the Local Government Board; a fee of four shillings weekly for each pauper lunatic kept in separate institutions to encourage their removal from the general workhouse, and kept on a per capita basis to stimulate economy by the local author-

ity; and finally a grant to Boards of Guardians toward the cost of registration and collection of vital statistics.

The gradual accumulation of grants eventually attracted the government's attention to the system and its complete lack of coordination. Men like Gladstone denounced the whole system of grants-in-aid as vicious and attempted to put severe restrictions on any future expansion of subsidies. The much needed reform came with the Local Government Act of 1888.

Before we consider this new phase, it will be well to summarize the characteristics which marked the grants-in-aid prior to 1888, and in some instances prior to 1929.

1. Grants were made on the basis of expenditures or simple measures of need.
2. No account was taken of local ability to pay or equalization.
3. Grants were intended for the relief of local rates, or to induce new duties and services.
4. Percentage grants increased local expenditure.



## CHAPTER III

### LOCAL GOVERNMENT ACT OF 1888 AND ITS RESULTS

The system of local grants had now become so involved and costly in administration that the time had come for a thorough overhauling of the whole structure of local government. This complexity of the grant situation in the eighties was not unlike that of the 1920's for at the end of each of these decades a reform act was passed in an effort to consolidate and simplify. It will be instructive, therefore, to contrast the two reform acts, for each proposed a radically different solution to the same problem.

In 1888 the central government desired to discontinue the separate grants which were then being made to different authorities for various purposes. To this end they effected a political and financial reorganization of local government. The County Council was created and to it was transferred the administrative functions formerly performed by justices in quarter sessions. These Councils were given administrative control over all local authorities in their area, though the Borough Councils soon protested at being subjected to the supervision. This protest resulted in the organization of the County Boroughs which were exempted from all control and enjoyed the same privileges, duties, and liabilities as the County Councils. Any urban section with a population of fifty thousand could qualify as a County Borough, the figure later being raised to seventy-five thousand.

The financial part of the reorganization involved the separation of tax revenues, and the assignment of certain taxes for the purposes of local government, in addition, of course, to revenues already obtained from the rating system. It was argued that state aid was desirable, since local rates were based on the occupation of real property, whereas personal property also received benefits from local expenditures and escaped from local taxation. To meet this situation a portion of the national probate duties was assigned, thus getting a contribution from personalty, together with certain license duties which were expected to provide an expanding revenue.

All receipts collected were paid into the Local Taxation Account of the Exchequer and disbursed in the following order of priority:

1. To pay all costs of administering the account;
2. To reimburse for those grants paid prior to 1888 and now discontinued;
3. To make grants for poor-law officers;
4. To revise Barrister courts and pay costs of elections;
5. To allot any balance available for general county purposes.

The cost of main roads was not at first a "priority" but later became so.

Funds were distributed to the County Councils and County Boroughs in each geographical county, and then disbursed to the local authorities under their jurisdiction. This was a great simplification, for the central government had now to deal with only relatively few authorities instead of every local unit in the whole of Great Britain. Each county received the probate duties in proportion to the shares it had formerly received from discontinued grants; the license duties were assigned to the county of origin. The county receiving these funds would then redistribute to the local units, first, the amount received by the local unit annually from grants prior to 1888, and second, the remainder, if any, in proportion to the rateable values. The latter provision obviously had no equalizing force and simply tended to make the rich governments richer.

This 1888 reform, also known as the "Goschen System," was essentially an economy measure. The earmarking of taxes was sufficient to pay existing grants with a slight surplus, but the *future* expansion of subsidies from central to local governments was limited to the increased yield from these two taxes. An increased yield might be expected from expanded trade and prosperity, but the system was designed to check raids on the Exchequer and to allow only slow expansion in local services. It provided for no new equalization, no specified rate relief, and no stimulus for improvements in local services.

These financial reforms soon broke down, for the system of assigned revenues was not satisfactory to either central or local authorities. The license and probate duties produced £5,000,000 in the first year which paid all former grants and left a surplus of £2,000,000 for the relief of local rates. In

1890 the revenue was increased to £6,000,000 through higher duties on beer and spirits. The substantial and growing yield of these duties made unnecessary any further advance in taxes to maintain the "Local Government Taxation Account" for the next twenty years—until 1907.

The first of several investigations into the problem of central-local finance came at this time with the Balfour Commission of 1896. They reported in 1901 and agreed that further assistance be given from national funds to services administered by local authorities. The report made the significant distinction between "national" and "local" services and laid down the following two criteria of a "national" service:

1. Universality and uniformity of administration mark a national service when no special benefit is conferred on a special place.
2. A service is also national when the state insists upon its provision and a standard of efficiency.

The Commission classified as national services such matters as poor relief, pauper lunatics and asylums, registration, vaccination, criminal prosecutions, education, and the maintenance of main roads. These services, they advised, should not be supported wholly from national funds but ought to receive a direct contribution from the Exchequer, or the existing system of assigned revenues should be extended. This would mean funds raised according to the principle of ability to pay, because central taxes fit that principle more exactly than do local rates.

Although Parliament took no action on the report, it is significant that expert opinion was already recommending a return to state aid on national services, only ten years after the Goschen system was in operation.

By 1907-08 the earlier surplus in the "Local Taxation Account" had become a deficiency and in some areas was not enough to support the "priorities" noted above. The assigned revenues had expanded but not in the same proportion as the expenditures on grant-aided services. Moreover, the original basis had become obsolete through the years, for the funds were still being distributed on the basis of grants made in the year 1888—twenty years previous. Parliament had stereotyped the proceeds of the various taxes and had even diverted funds from the "Local Taxation Account" to other purposes.

Thus in 1907 the assigned revenue system was finally abandoned. Thereafter all receipts went into the Exchequer and an equal sum was set aside for the "Local Taxation Account," somewhat as the Social Security reserve account is handled in the United States today. This meant that any increases in revenue from these taxes might be diverted into the Exchequer for general purposes, while the local authorities were guaranteed the average proceeds and might still gain from any increase in the number of licenses.

These restrictive lines were drawn still tighter with the reaction against expanding activities of local government in 1910-11. Subsidies from the "Local Taxation Account" were fixed and all further increases in revenue went into the general Exchequer account; thus was money provided for the reforms of the Liberal government.

It was not long, however, before new grants-in-aid began to come despite the fact that the Goschen system contemplated the divorce of central and local finance. The Inebriates Act of 1898 provided a subsidy to counties and county boroughs of sixteen shillings per week for inmates in special cure homes. Curiously enough a standard of performance is introduced even here, for if some unfortunate fellow does not stay "cured" but is convicted four times, the subsidy is reduced to ten and a half shillings after the fourth time!

The first derating act came in 1896 when one-half of all agricultural property was exempted from the poor rates and compensation in the form of an annual grant was provided the local authorities from the "Local Taxation Account." The amount of loss was stereotyped as of 1896 and was never revised (despite increased rate poundages on other property) until the 1929 reforms.

Other grants-in-aid were introduced from time to time through the entire period until 1929. These included a percentage grant for probation of offenders in 1907. The interest in the development of resources in 1909 brought grants to local authorities for afforestation, agriculture and rural industries, reclamation and drainage, harbors and inland navigation and the improvement of fisheries. The Forestry Act of 1919 provided a grant or loan of not more than £4 per acre to local authorities. The year 1913 brought new grants under

the Ministry of Health to county and county borough councils for the mentally deficient; the statute did not stipulate the basis of payment but Ministry regulations provided for the payment of 50 per cent of approved net expenditure. The tuberculosis acts of 1911 and 1913 established grants once more and the Public Health Act of 1921 was noteworthy for it utilized the block grant principle in making payments to counties and county boroughs based upon the amounts already received. Still other grants were made for maternity and child welfare, midwife training, welfare of blind, venereal disease, port sanitation, regulation of electors, land drainage, and diseases of animals.

Most of these required standards of efficiency stipulated by the appropriate Minister. The grant for midwife training for example, allowed so much per *successful* trainee; unemployment schemes in 1920-21 had a variable percentage grant depending on the number of additional workers employed. Many of these grants were of the old percentage type which had been so roundly criticized before 1888 and presumably ended by the assigned revenue system. The multiplication of these various grants-in-aid for specific services resulted in a financial entanglement of central and local governments which was every bit as complex as that which preceded the 1888 reform. Evidently the time was ripe for another reorganization of local government authorities.

Several commissions studied the situation following the Balfour Report of 1901. One of these was the Kempe Committee of 1911, which reported in 1914 advocating a considerable increase in state grants, and recommending the abolition of the assigned revenue system in favor of direct grants for semi-national services based on the efficiency of administration. The report indicated a strong bias in favor of a block grant system for such semi-national services as education, poor relief, police, main roads, public health, criminal prosecutions, mental deficiency and diseases of animals. Parliament made provision in the Finance bill of 1914 to carry out these recommendations but the war intervened. The result was a delay of some fifteen years in adopting the block grant device.

The Geddes Committee of 1919 which reported in 1922, advised drastic cuts in government expenditure and strongly

criticized the percentage grants to local authorities with all of its "vicious results." This criticism of percentage grants was apparently ignored for, as already noted, Parliament used the percentage grant more and more in the extension of postwar activities.

The Meston Committee was appointed in 1922 to consider the system of payments of local grants once more but its report was never published. Contrary to earlier investigations, the majority of this committee favored the percentage system though not without some qualifications. The substance of this report may be briefly summarized because of its bearing on the 1929 act:

1. Assigned revenues were found to be unrelated to needs and were established on a base which had become obsolete due to changed conditions.
2. Percentage grants were based upon expenditure and also bore no relation to needs. Extravagant authorities earned large grants and poor areas received the least. Moreover, a percentage grant requires close supervision by the central departments.
3. Some standard of efficiency is required to relate services and grants. The Committee thought figures of "normal" costs might provide such a standard.
4. The central government should know in advance the extent or limit of its liability for grants so the necessary funds could be provided in the budget. (As will be seen the block grant feature of the Local Government Act of 1929 met this point by establishing the annual amount of the Exchequer contribution for each five year period.)

## CHAPTER IV

### LOCAL GOVERNMENT ACT OF 1929

The earlier chapters complete the survey of the background from which the Local Government Act of 1929 emerged, and in the light of this accumulated experience, it should be easier to understand the provisions of this new reform. The assigned revenue system of 1888 had proved too inelastic for the expanding needs of local government; a whole new crop of direct subsidies to local authorities had grown up, many of which were percentage grants requiring central supervision and bearing no relation to the needs of a community. The removal of industrial plants to southern England had caused financial distress in some areas, and the subsequent chronic condition of unemployment had thus increased the expenditures of local authorities, especially in those areas least able to pay. Moreover, the compensation for loss on the agricultural derating had not expanded with the price level and rate poundage on other real property. Evidently the time was at hand for another overhauling of the central-local financial machinery to meet the existing defects.

The concept of the block grant as a fiscal device was not suddenly discovered at the time of the 1929 act, but as the introductory chapters indicate, it had been before the government for years. Even as far back as the Balfour Commission in 1896 the minority report recommended a change in the method of distributing grants, and advised the use of a formula to consider (1) the amounts actually spent by the local councils, and (2) the rateable value as an aid to poorer areas. The same minority also wanted the block grant for services as a whole, that is, education and public health generally, instead of the allocated grants for specialized services. Wheels turn slowly in Great Britain, however, and thirty years had to elapse before the government adopted the principle laid down in this minority report.

The Local Government Act of 1929 contains three distinct provisions.<sup>1</sup> Each of these deals with a separate problem, but

<sup>1</sup> 19 Geo. V, c. 17, Local Government Act, 1929.

the three parts are so interrelated that one of them cannot be fully understood without reference to the other two. Briefly these provisions are: derating of industry and agriculture ostensibly as a recovery measure, reorganizing administrative units with a transfer of functions between existing authorities, and finally the block grant method of financial aid to local government.

Agriculture had already been exempted to 75 per cent of the local rates, 50 per cent in 1896 and another 25 per cent in 1923; therefore the complete exemption provided in 1929 was not so sweeping as might first appear. In both cases compensation was paid to the losing authority from the "Local Government Account" by means of annual grants. Section 85 of the 1929 Act stipulated that these specific grants would cease as of March 31, 1930, and be incorporated in the block grant. In that final year 1929-30, they amounted to £4,615,401. The general derating provisions of the 1929 Act were to be effective October 1, 1929, but in the case of the remaining 25 per cent of agricultural land a special act was passed moving it up six months to April 1, 1929.<sup>2</sup> The grant to compensate local authorities for this additional six months cost the Exchequer £2,059,698 and was paid from the Suspensory Fund for Rating Relief.

The most severe blow to local finance was the exemption from the rates of 75 per cent of all industrial, mining, and transport property. Or as the law stated it, these types of property were to be valued at only 25 per cent of their annual rental value. This derating of industrial property was probably the least defensible part of the whole Act and can be criticized at length on the economic side. The law required that transportation companies, that is, railroads, pass the saving along in lower rates to shippers but the subsidy to industry carried no strings whatsoever. All firms, large and small, rich and poor, employing many or few, received the same subsidy and with no obligations. This provision was probably nothing but a concession to the industrial interests under the guise of a recovery measure.<sup>3</sup> Yet it must be recognized that this sort of

<sup>2</sup> 19 Geo. V, c. 26, Agricultural Rates Act, 1929.

<sup>3</sup> Its effectiveness in achieving these ends will be reviewed below in Chapter IX.



tax exemption attempted in 1929 would simply mean higher rates for someone else, and the burden is often shifted to those less able to pay. As will be seen when consideration is given to the new consumption taxes that were required to finance the Act, this is exactly what happened. Moreover, this meant that highly industrialized cities which had the greatest unemployment expense would now sustain the greatest loss on derating.

It is appropriate at this point to summarize the losses sustained by local authorities from the derating policies which date back to 1896 in agriculture. The following table gives the annual value calculated on the basis of 1930 valuations. Even though agricultural land and buildings were 75 per cent derated they were still valued *in toto* until the 1929 Act removed them entirely from the valuation rolls. The rateable value was thus 25 per cent of the annual value.

#### ANNUAL VALUES LOST DUE TO DERATING <sup>4</sup>

##### Agricultural land and buildings:

Acts of 1896 and 1923.....	£ 22,400,000
Act of 1929.....	7,400,000
Mining and industrial property.....	20,900,000
Freight-Transport property .....	9,600,000
Land covered by water.....	400,000
	<hr/>
Total loss .....	£ 60,700,000
Rateable value remaining.....	257,400,000
	<hr/>
Total before derating.....	£318,100,000

The total amount lost because of derating in the 1929 Act was 38 million pounds or 13 per cent of the existing rateable value. If the early agricultural acts are included, the total shrinkage in the tax base was 60.7 million pounds or 19 per cent.

The actual revenue lost as a consequence of derating was calculated on valuations in 1928-29, using rate poundage for the same year. A "rate poundage" is the amount of rates levied per pound of rateable value in each local authority. The loss came to £22,292,203, and compensation was stereotyped at that amount for all subsequent years.

<sup>4</sup> *Local Government Chronicle*, No. 4113 (October 13, 1945), p. 671.

Looking at the other side of the same coin, it can be said that this sum represents the annual subsidy paid to private industry as a result of the 1929 Act. This annual gain to specific industries has been roughly estimated in the following table.

ESTIMATE OF DERATING COST WITH RELIEF BY INDUSTRY <sup>5</sup>

Agriculture . . . . .	£4,100,000	Wool Weaving . . . . .	£750,000
Railroads . . . . .	4,000,000	Paper and print . . . . .	750,000
Coal Mining . . . . .	2,500,000	Chemicals . . . . .	600,000
Engineering . . . . .	2,000,000	Iron and Steel . . . . .	550,000
Cotton spinning . . . . .	1,500,000	Bleach and dye . . . . .	550,000
Metal Trades . . . . .	1,250,000	Beer and liquor . . . . .	400,000
Canals and docks . . . . .	1,000,000	Shipbuilding . . . . .	400,000
Food trades . . . . .	850,000	Textiles . . . . .	350,000
Boots, Shoes, Clothing . .	800,000	Pottery and glass . . . .	300,000
		Tobacco . . . . .	250,000

While the total subsidy estimate (£22,900,000) comes a little higher than the amount finally settled upon for compensation (£22,292,000) the discrepancy does not impair the usefulness of the exhibit. It is evident that the more prosperous industries such as tobacco, breweries and distilleries, and chemicals were subsidized on the same basis as those less flourishing, for example, coal, iron and steel, shipbuilding, and cotton spinning.

Be that as it may, the fact is derating was passed in the pious hope, first, that it would place local rates on a more "rational" basis, and second, that it would aid the revival of agriculture and industry. Its effectiveness in achieving these ends will be considered in Chapter IX. It was clearly seen that this action would have serious effects upon the machinery of local government and upon the financial relations between the Exchequer and local authorities. Derating thus precipitated the need for reform, and the changes that followed were connected parts of one single policy. These necessary accompaniments of derating were three in number: first, to modify the basis and method of government contribution to local services, by the formula and block grant; second, to care for the needy areas by the new basis for distribution of grants and some administrative reorganization; third, to obviate difficulties arising where finances were on too narrow a base by changes in areas and functions.

<sup>5</sup> *Parliamentary Debates*, Vol. 217, p. 692 (May 14, 1928).

These last two accompaniments of derating go to make up what has been called the second major provision of the 1929 Act, namely, the transfer of functions, and represents one of the most constructive parts of the Act. Two functions were shifted. First, poor law administration was taken from the old poor-law unions and responsibility vested in counties and county boroughs. This reduced the number of government units handling relief from 631 to 145. Second, the maintenance of roads was transferred from rural districts to the county, as well as the Class I and Class II roads in boroughs and urban districts which were also charged to the county. Again the number of units with which the central government had to deal was reduced from 640 to 62. The saving in administrative cost and the improved simplicity of thus reducing the number of responsible units are obvious; then too, the future burdens could be partially equalized by thus enlarging the prevailing areas levying rates for local services. Doubtless it was also felt that such reorganization might also decrease the cost of government and aid industry by requiring less in taxes.

The third provision of the 1929 Act was the substitution of a block grant for many of the allocated grants to specific services. These allocated grants, as the previous chapters indicate, had grown up more or less haphazardly with the breakdown of the 1888 reforms, and now at one stroke they were eliminated. The earmarked revenues from licenses and probate duties were released and went to the Exchequer as a part of its general fund; the old "Local Taxation Account" was abolished. It is necessary to notice, however, that some of the most important allocated grants were continued and still exist independently of the block grant system; these are the large grants for education, police, housing and highways, which, taken together, constitute about 75 per cent of the total subsidy from central to local governments. Thus only a minor sector of the financial web was involved in the 1929 Act, while a great deal of money still flowed directly to the multitude of local authorities. This action may have been due to British conservatism, desiring to move slowly in this new experiment and then, having perfected the block grant system for a part of the fiscal structure, to expand and take in these larger grants. On the other hand, it will be recalled that education was also

excluded from the reform act of 1888, so these exceptions may be due to political opposition and pressure from local governments which might lose from a reorganized system. They would conceivably allow the central government to "play" with a small part of the national economy provided the biggest financial plums were left intact.

The objectives of a block grant system might be outlined as follows: <sup>6</sup>

1. To provide a fair contribution from the Exchequer to the cost of local services;
2. To enable local authorities to have complete financial interest in their administration;
3. To be adapted in its working to the needs of the areas;
4. To permit the greatest freedom of local administration and initiative;
5. To provide sufficient general control and advice from the central government and insure a reasonable standard of performance.

Prior to 1929 the main motive behind the allocated grants was the raising of local administration to national standards of efficiency. Equalization between areas was an element only in education grants, and practically in no other cases was attention given to need. The 1929 Act, however, considered need and local ability, while an effort was made by the judicious weighting of certain factors to bring greater equalization.

The detailed discussion of the block grant and its related provisions can conveniently be divided into four parts: first, the size and nature of the grant; second, the use of the formula to distribute the money; third, a critical consideration of the various factors which make up the formula; and fourth, the effects of the formula on various units of local government.

#### SIZE AND NATURE OF GRANT

A national pool was formed known as the "General Exchequer Contribution" which represented the annual obligation of the central government. The size of this pool was determined from three factors. As the Local Government Act of 1929 discontinued many allocated grants the sums which formerly went for these grants were now deposited in the

<sup>6</sup> Cmd. 4200, p. 13.

pool. This amounted to £16,279,706 for the base year 1928-29. Next, the loss of rates due to derating was estimated for the fiscal year 1928-29 and a corresponding sum deposited in the pool; this amounted to £22,292,203. Finally, an additional sum of "new money" was added in amount of £5,000,000 to provide a margin of safety and to make the transitional adjustments easier. Of this sum, £3,000,000 was taken from the "Road Fund," a reserve under the old system, so actually there was only £2,000,000 of new money provided by the Exchequer. Thus for the first period the pool consisted of:

Discontinued grants .....	£16,279,706
Loss of rates ... ..	22,292,203
Additional sum .....	5,000,000

£43,571,909

In the second grant period the amount of new money was raised £350,000 to a total of £5,350,000.<sup>7</sup> For the third grant period, after an overhaul of the formula and certain other changes to be noted below, the new money was raised by £2,250,000 to a total of £7,600,000.<sup>8</sup> The entire General Exchequer Contribution was then rounded off to £46,172,000, where it has remained.

#### USE OF A FORMULA

In solving the problem of distributing this pool the government settled upon an exceedingly complex formula. It was realized, however, that the use of any empirical formula would cause great dislocation if introduced at once, and the law wisely provided for a long transitional period. The original plan was to have periods of five years each with the formula worked out once in each period. But Parliament shortened the initial periods to facilitate adjustments when the plan was first put into operation; these fixed grant periods as finally adopted were:

1. April, 1930—March, 1933—3 year period
2. " 1933— " 1937—4 " "
3. " 1937— " 1942—5 " "
4. " 1942— " 1947—5 " "

Thereafter all periods were of five years' duration.

<sup>7</sup> 23 Geo. V, c. 8, Local Government (General Exchequer Contributions) Act, 1933.

<sup>8</sup> Below, p. 38.

Since the war broke out in the middle of the third grant period, it was decided to postpone the recalculation of the formula which would have come in 1942. Consequently for the time since March, 1942, the General Exchequer Contribution plus additional and supplementary grants was frozen at the levels of 1941-42.

As a further precaution against serious maladjustments in changing to the new system, Parliament guaranteed a certain percentage of the loss the local authorities suffered from derating. This guarantee diminished over the seventeen-year transition period in the following ratio:

First and second periods . . . . .	75% of losses
Third period . . . . .	50%
Fourth period . . . . .	25%
Fifth period (after 1947) . . . . .	0%

This means that the pool was first used to reimburse derating losses up to 75 per cent, then any balance left in the pool was distributed according to the formula. Evidently in 1947, the end of the fourth period, the entire pool would be distributed by formula. Here again the outbreak of the war interrupted the scheme and caused Parliament to continue the 50 per cent guarantee of the third-grant period through each of the war years and in the immediate postwar period.

Still another precaution was taken to ensure a successful transition. Section 90 of the Act provided that additional Exchequer grants should be made if the loss in receipts suffered by a local authority was not covered by that authority's share in the pool plus a gain of one shilling per capita. Politically, it was probably this tempting offer of one shilling *net gain* that put the Local Government Act through Parliament in 1929. In other words, the total block grant had to cover derating losses, discontinued grants, and still leave the county or county borough with a net gain of one shilling per capita. This gain presumably would bring some relief to rateable values in each area.

With these observations, attention may be turned at once to the formula through which the national pool would be distributed. The purposes which this formula hoped to accomplish were: to provide a national share in the cost of semi-national services, to correct the inequality of the local tax

burden, and to supervise the administration. At the time of the bill's third reading before Parliament in 1929 the Minister of Health (Mr. Neville Chamberlain) argued that the main object of this formula was to distribute the grants according to needs:

The formula assumed a reformed rating system and then went on to distribute a given sum of money according to the needs of a locality, and its ability to fulfill those needs. If we wanted to know whether the formula will work satisfactorily we must find out what were the ultimate amounts of the grants which the formula was going to give to the various authorities and compare them.

Finally, the figures he had given Parliament "indicated that it put the money where they wanted it to go."

This last statement reveals the empirical nature of the formula which was adopted and which Miss Newcomer emphasizes in her book. The government apparently made up its mind in advance as to the allocation of the money, and then devised a formula that would fit this pattern. It would follow then that the block grant formula has little or no inherent value apart from the circumstances which produced it. Because of this purely empirical nature it is only stating the obvious to say the formula cannot be taken over *in toto* and applied to another situation, such as state-local relations in the United States. The factors chosen and their weighting in the formula might easily yield a satisfactory result in Great Britain and an impossible one in the United States.

If the government uses the formula merely as an empirical device to give a semblance of objectivity to the distribution of its money, the puzzling question is, why did it manufacture such a complex one? The only answer that appears at the moment is that it was working here with but a small sector of local finance and the whole program was more or less experimental. The government may be testing the factors to ascertain their adequacy as measures of need and fiscal ability insofar as they coincide with known conditions. In other words, a formula is not needed to reveal that certain areas are wealthy and others are poor, but government was seeking some technique which, when applied uniformly to all local governments, would isolate the needy areas and divert the bulk of the funds in that direction. This then, is the real test of the formula, and not that it

tells something that is already known. It will be seen presently that the 1929 formula failed in some respects and consequently was amended in 1937, continuing thus through the war years.

Before proceeding to an analysis of the several factors in the formula, the problem of recomputing the block grant every five years may be considered. Although Parliament votes annually on the expenditure, the shares of the separate county and county borough councils are determined only once in each grant period by the formula. The original plan called for a census every five years which would provide data on the various factors to be used afresh in each grant period, but the scheme was dropped. Now data for the ensuing grant period are taken in the penultimate year of the preceding period; in other words, the formula for the period 1937-42 was computed from data relating to 1935-36—the penultimate year of the period 1933-37. This rule is simply a matter of expediency, for that year would be the latest in which statistical data are available. Should this base year be abnormally high for temporary causes involving an emergency proclamation, the Act stipulates that the last preceding year, when no such abnormality existed, must be used for purposes of the formula. As will be seen later, this time lag is one of the greatest weaknesses in the block grant system; a local authority would receive a grant in 1942 based on conditions that existed six years previous, in 1936.

The Act of 1929 provided that if any new services were imposed upon local governments, the national pool or Exchequer Contribution should be enlarged accordingly. Such a clause has, of course, no compelling force, for one Parliament cannot bind another Parliament, yet this affirmation is not without a persuasive force in preventing the central government from placing too heavy a load on the local authorities. Nevertheless, the law does specify that the General Exchequer Contribution must maintain a certain ratio to the total rate and grant-borne expenditures of local government. This expression "rate and grant borne expenditure" simply means the volume of local expenditure made from rate revenues plus the amount of the General Exchequer Contribution.

The *minimum* ratio of the Exchequer Contribution to expenditures was established in the first fixed grant period as follows:



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(a) General Exchequer Contribution, first period.....	£ 43,572,000
(b) Total rate-borne expenditure 1930-31.....	144,420,000
(c) .....	£187,992,000

The ratio of (a) to (c) is 23.17 per cent; therefore, all exchequer contributions in the future must be at least 23 per cent of the total rate and block grant expenditure. This minimum proportion was set at 22.5 per cent in the 1937 Act.

The General Exchequer Contribution for the second grant period was computed in the same fashion and demonstrates the rule laid down above.

(a) Exchequer Contribution in first period.....	£ 43,572,000
(b) Total rate-borne expenditure 1931-32 (penultimate year) ..	145,920,000
(c) .....	£189,492,000

Thus the Exchequer Contribution for the second grant period cannot be less than 23 per cent of this total. Parliament, however, added £350,000 to the "new money" to meet the small increase necessary, putting the full grant at £43,922,000.<sup>9</sup>

Using the same procedure, the General Exchequer Contribution was set for the third grant period as follows:

$$£43,572,000 \times \frac{£208,638,000}{£188,023,000} = £48,349,000 \text{ (approx.)}$$

The sum of £208,638,000 was, of course, the rate and block grant expenditure for 1935-36, the penultimate year, while £188,023,000 was the revised figure for the first period. Certain deductions were made from the gross amount of the General Exchequer Contribution to cover local contributions in lieu of unemployment assistance and for the transfer of roads. Parliament then added £2,250,000 to the "new money" which left a total of £46,172,000 to be distributed.

It is evident that the General Exchequer Contribution does not rise and fall in exact proportion to rate-borne expenditure; for example, if the latter doubled, the Exchequer Contribution would not double but would increase by only 77 per cent. Some have argued that it would be more equitable if the Exchequer Contribution increased or decreased in the same proportion as

<sup>9</sup> 23 Geo. V, c. 8, Local Government (General Exchequer Contributions) Act, 1933.

rate-borne expenditure so the local government and the central government might share equally in the burden of new services. Nevertheless, the Exchequer now puts up at least £22.5 for every £100 expended by the local authority on expanding services, and this arrangement affords considerable rate relief. Furthermore, if the new service is also grant-aided by a specific grant, the Exchequer really assumes a double burden. First, it pays for the central department's share of the cost, 50 per cent; then after the next grant period and recalculation of the formula, it will pay—through the block grant—22.5 per cent of the other half which originally fell on rates. The net allocation of cost is thus 63 per cent on the Exchequer and 37 per cent on the local authority in the assumed case.

#### FACTORS IN THE FORMULA—POPULATION

The formula is a composite of five factors, each of which is calculated to measure some aspect of need or fiscal capacity. The basic factor is the total population in each county and county borough, while the other four simply weight the given population. This weighting is so substantial that the original population figure has been increased anywhere from 29 per cent to 544 per cent for counties, and from zero to 581 per cent for county boroughs. A process of cumulative weighting is employed which, as the wide range indicates, brings a greater degree of equalization between rich and poor local governments.

The striking part of this weighting technique is that each factor is assigned a "normal" value and the given population is weighted more or less as local conditions fall above or below the "normal" set up in the Act. It has been difficult to discover the logic which led to the selection of these "normals," or why one should be chosen instead of another. For example, why does the Act declare that rateable value of £10 per capita is the standard; why not £12 or £15?

In an effort to establish some specific explanation on this choice of "normals" for each of the factors, correspondence posing a series of questions was initiated with the Institute of Municipal Treasurers and Accountants in the fall of 1945. They in turn secured the needed information directly from the Ministry of Health, and the answers are introduced in the text in the appropriate section pertaining to each factor.

## CHILDREN UNDER FIVE YEARS

The first weighting factor is the number of children under five years of age. Several child welfare services are provided for these infant children and if they comprise 5 per cent or less, that is 50 per thousand, in the total population, the local government is expected to take care of them. If the number is larger than 5 per cent, some central assistance may be required. Here then the "normal" is 5 per cent and no local authority receives any weight for children unless it exceeds this proportion. The figure of 50 per thousand was originally selected as "normal" because it was approximately the minimum number of children of that age group per thousand of population in any county or county borough. Consequently all counties and county boroughs received some weight for this factor in the first fixed grant period. However, by the time the third period came around in 1937-42, there were three county boroughs below "normal" and therefore there was no weight for children.

The amount of local services attributable to this factor is so small it may be regarded as an index of relative poverty rather than a direct measure of expenditure needs. It is a well known fact, demonstrated by various studies, that areas having a large ratio of children to adult population are usually areas of meager resources. Or as the observation is commonly stated, the size of the family varies inversely with income so that an abnormal proportion of children is *prima facie* evidence of low fiscal ability. Since expenditure on children is included in two grants made outside the block grant formula, this factor is not intended to measure need although it undoubtedly affords an indirect measure of need just as it is an indirect measure of poverty.

A major advantage of this factor is that statistics on population are factual and are not dependent upon the subjective and erratic processes of valuation, as is the rateable value factor. There are some disadvantages, however, which cannot be ignored. First of these is the secular decline in the number of children as a result of the stabilization of population growth. The averages fell from 81 per thousand in 1928 to 74 per thousand in 1932 and some local authorities had their share of the General Exchequer Contribution drastically reduced if the

decline was more rapid in their areas than in others. For example, every county borough suffered a decrease in this factor between the first and second grant periods. Therefore something might be done to steady the factor and perhaps give it greater weight than it has had thus far by either lowering the normal which is now fifty per thousand, or increasing the percentage weighting attributable to this factor.

A second disadvantage is that the children factor does not differentiate districts where services may be light or heavy depending upon the character of the population. In other words, the services presumably covered by this factor are heavier in a "poor" district than in a rich district, although the two districts may have identical ratios of children. Some argue that too much stress is laid upon this factor and too little upon the other factors of rateable value and unemployment; they then propose some alternative such as counting only children of the working class, though the problem of ascertaining the "working class" would be most difficult of administration. Another alternative would be to use elementary-school children, which is not very good since education costs are covered by grants outside the block grant formula. Still another might be to combine elementary-school children with children under five, weighting the latter since the school children are already provided for through the education grants.

Despite these criticisms, the government did not change the children factor when it reviewed the 1929 Act in 1937. Thus the basic population will still be weighted by the proportion which the abnormal bears to the normal 5 per cent. To express this most neatly it can be put in equation form:

$$P \times \frac{(C - 50)}{50}$$

when P is the basic population,

C is the number of children under five years per 1,000 population, and 50 is, of course, the normal established by law, namely, 5% of 1,000.

Using the County of Cumberland as an example, substitute in the equation:

$$\begin{array}{l} P = 199,590 \text{ (basic population)} \\ C = \quad \quad 76 \end{array}$$

and derive as the result: 103,787. This sum is then added to the basic population as the first weight.

## RATEABLE VALUE

The second of the four weighting factors is rateable value, and the law established a normal of £10 per capita, which is deemed adequate for local services of reasonable quality. The only local governments to receive weight are those which fall short of this norm. In the 'children under five' factor it was the local governments above the normal which received weight, whereas here it is just the opposite; those below the normal receive weight. In the third grant period, 1937-42, two counties and seven county boroughs received no weight for rateable value as they all had £10 or more per capita.

This factor aims at a measure of capacity to pay, and its effectiveness depends largely on the uniformity of valuation. Rateable value in Great Britain is comparable to assessed valuation in the United States, though the English exempt empty property from the local rates, and levy on the occupier, whereas in the United States all real property is taxable whether occupied or not, and levy is made upon the owner, not the occupier. The problem of valuation is just as acute in Great Britain, however, and wide differentials exist between annual values and rateable values. Hence the accuracy of this rateable value factor is seriously vitiated by the variations in local rating policy, while the other factors in the formula are derived by simply counting heads.

The Rating and Valuation Act of 1925 was an attempt to get more uniformity. Some progress has been made, although cumbersome valuation committees in the counties increase the difficulty of getting uniformity within a county. Returns are being required of rating authorities showing the per cent of gross value to rental value, with the result that uniform valuation is steadily improving; but undervalued areas still gain at the expense of those with valuations up to date. This factor, moreover, is the only one subject to the influence of local authorities and serious consequences may result when such influences are brought to bear. Obviously the more an authority can underassess its properties, the lower it falls below the £10 normal, and the larger the weight it receives. This assumes, of course, that the other authorities do not imitate the action, for then the relative positions would remain unchanged, and the

original authority gains nothing. In spite of these difficulties there can be little doubt that rateable value per capita is one of the best measures of local fiscal capacity.

The rateable value factor was introduced for a sound reason, namely, to recoup for local authorities the losses sustained in derating, when the initial guarantees expire and the whole Exchequer Contribution is distributed by the formula. Some argue that the law does not succeed in this respect for it provides only a one-way variation. Instead of allowing any excess over the normal £10 to reduce the weighted population figures, it ignores such cases and deals only with those below the norm, increasing their weighted population accordingly. This proposal might bring drastic equalization, but as noted above, there were only 9 local authorities (out of a total of 145) which exceeded the £10 norm and received no weight. Obviously the norm was set so high as to include practically all counties and county boroughs except the most wealthy.

To give greater support to those with larger derating losses one plan was suggested, namely, to determine rateable value per head before and after derating. Then the weighting factor might be increased by the percentage between the two. Assume, for example:

Rateable value without derating	£5 per head
" " " with "	4 " "

The percentage by which £4 is less than £5 is 20 per cent, and the factor, so it is proposed, will be increased by that amount before being applied to the basic population. There is no doubt that some local governments will be hard pressed when the guarantees expire because of derating losses, and perhaps some increase in the rateable value factor as outlined above, will mitigate this pressure.

Some of the local authorities have protested because the rateable factor is concerned only with the basis of levy and not the volume of expenditure. Moreover, they said, the 1929 Act was calculated to broaden the tax base by using larger sums from the national Exchequer, thus relieving real estate; but in fact it is not working out so. As for varying the grant with volume of expenditure, such a plan would resurrect the problems of the old percentage system which the 1929 Act studiously avoided,

and to turn in that direction now would mark the end of the block grant system.

The government considered all the possibilities of changing the rateable value factor, but opinions were so diverse that it was decided to make no alteration. Hence the 1937 law continued the 1929 provisions, namely, the proportion which the deficiency in rateable value bears to the normal ten pound per capita is the weighting factor. Again transposing this into equation form:

$$P \times \frac{10 - R}{10}$$

when P is basic population

R is rateable value per head

£10 is the normal established by the 1929 Act.

Using data for Cumberland County again, substitute the values

$$\begin{array}{l} P = 199,590 \\ R = \quad \quad \quad \pounds 4 \end{array}$$

in the equation and derive the result: 116,940, which sum is added to the basic population as the second weight. The result thus far is:

Basic population . . . . .	199,590
First weight (children) . . . . .	103,787
Second weight (rateable value). . . . .	116,940

420,317

This sum 420,317 is called the "first intermediate weighted population" and becomes the base figure for the last two factors to which attention is now directed.

## UNEMPLOYMENT

The third weighting factor is the volume of registered unemployment which quickly became the most important factor in the depressed years of the 1930's. Since then the picture has been greatly altered by the Unemployment Act of 1934. This law imposes upon the central government partial financial responsibility for able-bodied unemployed and their dependents, so the importance of the factor has declined.

The original intention was to provide additional aid for areas with abnormal depression, and to that end the Act established the normal unemployment at  $1\frac{1}{2}$  per cent of the total

population. Thus areas with unemployment in excess of this norm were entitled to receive an addition to their weighted population.

Since administrative counties have a lower level of unemployment than county boroughs, the "normal" was set at a figure slightly below the average for England and Wales as a whole. Moreover, as the mere numerical excess of the percentage over  $1\frac{1}{2}$  would not have provided sufficient weighting, a multiple of 10 was introduced. As thus selected, the factor produced a weighting in 18 of the 62 counties and in 68 of the 83 county boroughs.

This factor really attempted to measure both need and fiscal capacity at one stroke, for a large number of unemployed would increase the relief demands upon the local government, and at the same time reduce the disposable income from which rates are paid. However, since this factor is based upon insured persons only, whose unemployment benefits are now borne by the central government and not the local authority, it might be argued that unemployment does not represent the burden of expenditure but is rather an index of fiscal capacity. Yet all able-bodied unemployed do not come within the terms of the 1934 Act, and responsibility for such persons as hawkers, small traders, and the temporarily sick fall upon the local government. Then again this factor excluded all the unemployed who were not insured, such as agricultural workers and fishermen; it therefore still stands as a measure of need.

Perhaps the most damaging criticisms of the unemployment factor are the time lag involved, and the wide fluctuations which may occur in the interim due to general business conditions. The time lag arises, of course, from the five-year duration of the fixed grant period, while the formula is computed only once for each period. The grants in the second period, 1933-37 for example, were based upon the unemployed for 1930, 1931, and 1932, with no allowance for acute and sudden unemployment in one area; nor was any grant withdrawn for areas which had recovered since the period began.

The second criticism is the susceptibility of this factor to wide fluctuations. In the first grant period the unemployment factor attracted 8 per cent of the total amount distributed which increased to 20 per cent in the second period. Moreover, this



factor is applied not to the basic population, but to the population as already weighted by the children and rateable value factors, or as it is designated in the Act, the "first intermediate weighted population." Thus variations in unemployment will have a greater effect than the other two factors discussed above.

Several proposals have been put forward to correct the defects of this factor as prescribed in the original statute. Some recommend the introduction into the formula of a new factor, namely, the amount of public assistance expenditure per head (or possibly per pound of rateable value). Such a factor would, it is alleged, aid the areas needing it most, especially where unemployed men do not qualify under the 1934 Act and necessarily fall on the public assistance rolls of the local government. Another argument for this new factor is that the policy of the national government may have a direct effect upon the volume of public assistance, to wit: great ports suffer as a result of a tariff while other industrial areas receive all the benefits. The principal criticism of such a proposition is the same one could make of any attempt to tie up the block grant with the volume of local expenditure. It might easily aid the extravagant authorities at the cost of the more conservative and thrifty. This objection is not unique, for it might be applied as well to the rateable value factor, which is controlled by the valuation policies of local officers.

Another proposal, somewhat related to the above, is also to introduce a new poor-relief factor, but this time on the basis of the number of persons on the relief rolls, and not the volume of expenditure. This, it is alleged, might serve either alone or in combination with the unemployment factor to provide a steadying influence for the latter, and narrow the wide fluctuations which are admittedly unsatisfactory. Such a scheme does not tie up the block grant to the volume of expenditure and for that reason seems superior to the one noted above. Moreover, it is evident that poor relief is responsible for heavy local expenditures, so why not include so significant an item in the formula as a good measure of need and fiscal capacity?

Still a third proposal was for a weighting factor based on the average length of unemployment which would provide a more reliable indicator of real need. Here the administrative

difficulty of ascertaining the average length of unemployment for several million people every five years seems insuperable.

The original statute of 1929 defined this factor as the proportion which the unemployed insured men (plus one-tenth of the unemployed insured women) over a three-year average, bore to the basic population of each area. The excess of this proportion over  $1\frac{1}{2}$  per cent of the population, which is the "normal" set up in the Act would be multiplied by ten in the first and second periods, while in the third period the multiplier would be reduced to 5.8.

The original Act required that the formula be reviewed in 1937. At that time it became evident that since the Act started in 1929, population had increased, the number of children under five had decreased, and there had been a general increase in rateable values. One consequence of these changing factors was to increase the proportion of the General Exchequer Contribution attracted by the basic factor of population, and correspondingly to decrease the effect of the weighting factors. This tendency, if no alteration in the formula were made, would have given some advantage to the richer areas which usually receive little weighting. The government chose to counteract this tendency by revising the unemployment factor. This was accomplished in 1937 and provided (1) that the multiplier should remain at ten, and (2) that a super-weighting factor be introduced, where the calculated unemployment exceeded 5 per cent of the population, this excess be multiplied by five. This super-weighting feature operated in five counties and twenty-eight county boroughs in recalculating the formula for the third fixed grant period.

To illustrate the effect of this change, the factor has been calculated under the 1929 and the 1937 Acts and expressed, for convenience, in equation form:

$$I \frac{(U - 1.5)}{100} \times 5.8$$

$$(a) \quad I \frac{(U - 1.5)}{100} \times 10$$

$$(b) \quad I \frac{(U - 5)}{100} \times 5$$

when  $I$  = intermediate weighted population  
 $U$  = percentage of unemployed to basic population,  
 $1.5$  = normal percentage unemployment

5.8 = multiplier for the third grant period under the 1929 Act; 10 is the multiplier under the 1937 Act

In equation (b): 5% represents the "super-norm" and 5 is the prescribed multiplier for this excess unemployment.

Using the data for Cumberland County again and substituting in the various equations the values:

$$I = 5.953\%$$

$$U = 420,317$$

these results are derived:

1929			108,567
1937	(a)	187,167	
	(b)	<u>20,028</u>	207,195

Obviously the 1937 revision increased the weight due to unemployment very substantially. The formula as constructed thus far is:

Basic population .....	199,590
First weight (children under five) .....	103,787
Second weight (rateable value) .....	<u>116,940</u>
	420,317
Third weight (unemployment) .....	<u>207,195</u>
	627,512

This total of 627,512 completes the formula for county boroughs and represents the "total weighted population," on the basis of which a county borough will receive its slice of the General Exchequer Contribution. For counties, however, there is still one more weighting factor to be considered, namely, sparsity. In other words, the 83 county boroughs are given only three weights whereas the 61 counties (excluding London) must add a fourth weight for sparsity before their "total weighted population" can be determined.

#### SPARSITY

This factor, which applies only to counties (excluding London) is an attempt to measure the burden of highway cost and maintenance, and has no relation to the fiscal capacity of the area. Expenditure per capita on roads will be high when the population per mile of road is low; hence with some

measure of the spread of population it should be possible to direct relief to areas where the highway costs are a heavy burden on rates.

The "normal" established in this factor is 200 persons per mile, although, unlike the other three weighting factors, it is really a false norm because weight is given to areas which have more than 200 as well as to those having less. In fact every county (always excepting London) gets some weight for sparsity whether the population is sparse or not!

The 1929 Act distinguishes counties with less than 100 persons per mile (see equation A) from those with more than 100 per mile (see equation B), and the former are more heavily weighted. Once more, expressing these relations in equations:

$$(a) \quad I \frac{(200 - S)}{200} \qquad (b) \quad I \frac{(50)}{S}$$

when  $I$  = first intermediate weighted population  
 $S$  = population per mile  
 200 = norm defined in 1929 Act

Apparently the government did not wish to cut off completely all counties with more than 100 per mile but the weight allowed is drastically reduced. Using data for Cumberland County and substituting these values:

$$\begin{aligned} I &= 420,317 \\ S &= 82 \end{aligned}$$

the result is derived from equation (a): 247,987.

In reviewing the 1929 Act as required in 1937, Parliament decided to increase the weighting for sparsity as it had done for unemployment. Strengthening the sparsity factor was intended to safeguard the position of the counties generally, and especially to improve the aid given to the poorest counties, balancing the increased unemployment factor which favored the county boroughs. These alterations were accomplished by a change in the factor itself and also by a change in the base population to which the weight is applied.

The norm was changed from 200 to 300 for counties with population less than 100 per mile. The base population in 1929 was the first intermediate weighted population, but after the 1937 revision it was changed to the second intermediate weighted population. That is to say, the weight for sparsity was

formerly applied to the original population plus the first two weights (children and rateable value) whereas now a third weight (unemployment) is added to the base before applying the sparsity factor. Expressing these changes in equation form:

$$(a) \quad W \times \frac{(300 - S)}{300} \qquad (b) \quad W \times \frac{40}{(S - 40)}$$

when  $W$  = second intermediate weighted population

$S$  = population per mile

300 = the normal under the 1937 law

To observe the effect of this change the formula may be recomputed with the values:

$$W = 627,512 \text{ (Using equation (a) again)}$$

$$S = 82$$

to derive the result: 456,013, which is obviously much greater than the weight of 247,987 obtained under the 1929 law.

The final picture now looks like this for Cumberland County using the formula as amended in 1937:

Basic population .....	199,590
First weight (children under five).....	103,787
Second weight (rateable value).....	116,940
<hr/>	
First intermediate .....	420,317
Third weight (unemployment). ....	207,195
<hr/>	
Second intermediate .....	627,512
Fourth weight (sparsity).....	456,013
<hr/>	
	1,083,525

Thus the original population has been increased fivefold by the weighting process. It is evident the factors for unemployment and sparsity are more generous weights since they are not applied to the basic population but to a base already weighted by two or three factors, respectively. This cumulative weighting has been frequently criticized on the ground that a factor is either satisfactory of itself or not, and if not satisfactory without cumulative weighting, it should be drastically amended. Nonetheless, such cumulative weighting does make for steeper equalization as between local authorities, presumably a desirable achievement.

Probably the most serious problem which the formula presents is that of wide fluctuations in the various factors, to

which attention has already been called. The fifteen years in which the Local Government Act has been operating can hardly be designated as normal years, yet they provided the severest test possible for judging the effects upon local finance. Considering the effect of the children-under-five factor, it is significant to find that a weight of 24,000,000 in the first grant period dropped to 19,000,000 in the second period and went still lower to 16,000,000 in the third period. The unemployment factor, as might be expected, increased from 8.5 million in the first period to 21.5 million in the second period and dropped to 18 million in the third, reflecting the rise and fall of business prosperity. Such violent fluctuation of factors is not satisfactory, first, because it disturbs the distribution of the General Exchequer Contribution, and second, it does not directly reflect these factors in local expenditure; a sharp drop say, in the children factor will reduce the amount of the block grant for a single area very substantially with no corresponding reduction in local expenditure. The obvious result is a sudden increase in the rate burden.

Discussions thus far have revealed no satisfactory factor which, when introduced into the formula, will exercise a stabilizing influence. Meanwhile the operation of the factors must be stabilized if local finance is to avoid serious dislocation, especially when derating guarantees expire and the entire Exchequer Contribution is distributed according to formula. Two proposals have been made to meet the problem: one to have a separate grant formula for each service, and another to split the national pool into six parts to be distributed separately, though the money would actually be handed over as one block grant. The first plan would become too complex, to say nothing of the fact that it represents a departure from the single block grant system in the direction of the old specific service grants. The second proposal is more tenable. It would anchor each weighting factor to a specific proportion of the General Exchequer Contribution, so that each weight would have a more or less constant value and operate independently of other weights in the distribution of the pool. For example, let 40 per cent of the General Exchequer Contribution be distributed on the basis of population, 20 per cent on the basis of children under five, and so on for each of the factors. The major criti-

cism of this plan is that it loses the equalization benefits of the cumulative weighting in the present formula, and also involves too arbitrary a determination of how much of the pool should be allocated to each factor.

In the investigation prior to the revision of 1937, the government considered the possibility of using additional factors such as old age pensioners, children of school age, and persons in receipt of out relief. It concluded, however, that the existing formula had substantially accorded with the original purposes of the 1929 Act, and that except for some strengthening of the unemployment and sparsity factors, it should remain unchanged.<sup>10</sup> The few revisions made were calculated to give more assistance to needy areas, for example those counties and county boroughs which were hardest hit by derating losses, or burdened with chronic unemployment as a result of depression or industry shifting to southeast England.

Another important criticism which is leveled at the formula is the omission of any factor giving effect to the actual burden of the whole rate-borne expenditure of single local authorities. These local units undertook liabilities expecting a continuance of the system and rates which existed prior to 1929. They planned new services, raised capital, and set rates on the basis of the then existing rateable value. When derating came they could not abandon services already begun or about to begin in which capital had been invested. Grants that are based upon population do not measure these burdens and it is easy to overlook the important fact that expenditures of local governments cannot vary in proportion to the population fluctuations.

The selection of the county and the county borough as units for calculating the apportionment of the General Exchequer Contribution and then redistributing the block grant to local authorities within the county has been a source of much heart burning on the part of local authorities. The foregoing pages cover in detail the workings of the formula, the factors which make it up, criticisms and suggested alternatives to meet apparent defects. Yet the study is only half completed, for once the money is given to the county it must be parceled out among the many local rating units in the county's jurisdiction. This

<sup>10</sup> *Report on Result of Investigation Under Section 110*, House of Commons Paper No. 42, 1937.

redistribution raises a whole new set of problems to which attention may now be directed.

### GRANT DISTRIBUTION WITHIN COUNTIES

Oddly enough the complex formula adopted by the government to apportion the General Exchequer Contribution among county and county boroughs is discarded after this operation and is no longer used. The largest number of local authorities is made up, of course, of the smaller unit such as the non-county borough (a city too small to qualify for county borough status), urban district, and rural district, all three being under the surveillance of the County Council. Yet they all receive their block grant, not according to the famous formula, but on a single capitation basis. Non-county boroughs and urban districts each receive a slice of the county's money, the amount being determined by the ratio:

$$\frac{\frac{1}{2} \text{ total county apportionments from the pool}}{\text{Aggregate population of all counties}}$$

Substituting figures for the third grant period (1937-42), the solution is:

Total county money (exclude London).....	£28,664,000
One half of this sum.....	14,332,000
Total population in counties (exclude London)....	23,025,890

hence the ratio:

$$\frac{£14,332,000}{23,025,890} = 10\frac{1}{2} \text{ shillings.}$$

In other words, every non-county borough and urban district receives annually 10s. 6d. per capita on its estimated population. In the first period this amounted to 12s. 6d. per capita and in the second grant period, 12s. 2d. Rural districts have had their burden so lightened by the transfer of road cost and poor relief to the county council that they receive only one-fifth of this amount, that is, 2s. 6d. in the first period 2s. 5½d. in the second, and 2s. 1d. in the third period.

This capitation grant is uniform throughout every county in the entire country and goes to every local authority within each county regardless of the need or the wealth of that local unit. Moreover, since the capitation grants are computed from total



population it may be that a single county council will exhaust its entire share of the Exchequer Contribution in trying to pay the local units in its area the sums they may claim under this provision. Such a county would then have nothing left for its own heavy expenses, such as the burdens of highways and poor relief, and these would fall upon the ratepayers. In an effort to meet these and other anomalies, various provisions were included in the 1929 Act.

First, the "Deficiency Grant" was provided to give further assistance to an administrative county if it could not pay its subdivisions the prescribed capitation grants. Two fairly rich counties, Middlesex and Surrey, did not receive enough in their block grants to meet these district payments and were awarded deficiency grants totaling £100,423 each year. The 1937 Act further stipulated that the county council in such instances must contribute to this deficiency out of its own resources. This it could do either by paying one-half of the deficiency, or by contributing an amount equal to the product of a penny rate in the first year of the grant period, whichever amount was smaller. The other half of the deficiency is paid by the Exchequer, but as it is then deducted from the entire block grant pool it is really spread over the local authorities in the form of slightly smaller block grants.

Second, those districts within a county that experienced an increase in rates following the introduction of the Local Government Act were designated as "losing" areas, while those districts which could lower rates as a result of the 1929 changes were designated "gaining" areas. The Act then provided for a "Supplementary Grant" to each losing area to ease the transition from the old to the new system, insuring that no rating authority should suffer any increase in rate poundage. This arrangement was effective the first five years, to 1935, guaranteeing full losses of any district. After 1935 the amount was reduced one-fifteenth annually, and after nineteen years the full effect of the formula was expected to operate without this cushion.

The 1937 changes in the Act liberalized this provision somewhat by allowing the Ministry of Health to cut the reduction to one-thirtieth annually instead of one-fifteenth, where the latter amount would occasion special hardship or difficulty in a

local district. Or if the district were really hard up, the Ministry of Health could, after checking with the county council, take this reduction out of the county's block grant instead of the district's capitation grant. This would have an equalizing effect within the county, for the county council would probably raise a corresponding sum by additional rates (precepts) on all authorities within its jurisdiction.

The supplementary grant was calculated by comparing the local authority's expenditure in the standard year 1928-29 with the expenditure as it would have been had the new system of derating been in effect that year. If this comparison showed a rate increase necessary, a supplementary grant was allowed the "losing" area in amount equivalent to the estimated increase (of the hypothetical over the actual rate then prevailing). The funds for these supplementary grants came from two sources: one-half was new money from the Exchequer outside the block grant pool, and the other half came from the "gaining" areas in the same county. All areas that gain must give up an equal proportion of this gain, but this share cannot exceed the capitation grant which the gaining area receives from the county. Should the contributions of these gaining areas not make up one-half of the cost, the Exchequer will pay the balance. The supplementary grant scheme does not apply to county boroughs unless there are peculiar local conditions with separately rated areas. Even then the supplementary grant covers only one-half the loss sustained by a losing area in the first five years, this being reduced by one-fifteenth each year thereafter.

The device of the supplementary grant, instead of smoothing the path, has itself produced some anomalies and leaves much to be desired. As local authorities have argued, the deduction from the capitation grant of the gaining areas towards the supplementary grant payable to losing areas, is an injustice, especially if the rate poundage in losing areas is lower than in gaining areas. Moreover, as the scheme actually works some poor areas, having gained substantially from the capitation grant, must contribute to the "relief" of wealthy areas which have "lost." Thus differences in local fiscal capacity are intensified rather than equalized. Finally the remoteness of the standard year 1928-29 with no allowance for changes since

then, is a weakness of many sections of the Local Government Act. In this case, recalculation might alter the status of some local units, for example, change some losers to gainers or vice versa.

Third, for any rural district where special and parish rates were levied in the standard year 1928-29, compensation was provided for losses which the district might suffer because of derating. In the first two grant periods 100 per cent of such loss was guaranteed, and was paid to the rural district out of the county block grant. In the third period only 50 per cent of loss was guaranteed although the county council was free to pay the remaining 50 per cent or any fraction thereof if it saw fit to do so. In the fourth period the guarantee falls to 25 per cent of the loss with any additional payments still optional on the county council. Finally the guarantee expires at the beginning of the fifth period. This declining percentage of reimbursement for derating loss is analogous to that allowed counties and county boroughs in the distribution of the national pool, described above in detail. At the end of the seventeen-year transition stage, both guarantees expire. Since the third grant period, 1937-42, has been extended indefinitely as a result of the war, the transition phase is also indefinite, though originally set for twelve years.

In spite of these precautions to prevent any serious dislocation in local finance, there is still much to be desired and many local authorities argued in vain for a revision of this capitation system. Those representing county boroughs declared a revision in the formula was desirable because some boroughs received a smaller grant in the second as compared with the first fixed grant period. This occurred in the face of increased unemployment and the need for public assistance coupled with a decreased population which apparently reduced the amount of the grant more than the increased unemployment weight enlarged it. The borough population moved out of these distressed areas to other industrial sections, which then received a larger share of the pool at the expense of the original borough. It must always be remembered that the national pool is fixed in

amount and when one county or county borough gets more, the others necessarily get less. Representatives of these large urban boroughs were well aware of the inelasticity of municipal services, and that a mere reduction in population does not decrease the volume of services already provided; streets and schools, for example, must still be maintained. Hence these county boroughs desired a greater weight on the factors estimating need, which was partly accomplished in the 1937 revision of the unemployment factor. County boroughs, of course, get no weight for sparsity in their formula so would not gain from the revision in that factor.

The means taken to prevent loss due to derating were fairly satisfactory, but grave doubts were often expressed as to what might happen after the transition when all guarantees expire, and the formula distributes the entire national pool. Some proposed that sums for reimbursing these derating losses should not be included in the pool but distributed on the basis of actual losses. Many attempts were made in 1929 to provide such direct compensation following the precedent of the 1923 Agricultural Act, but they all failed of enactment. The transitional guarantees against derating loss are not wholly satisfactory as they make no allowance for new industrial property and increased assessment due to alterations and improvements; moreover, the courts have allowed many borderline cases originally thought not within the law and therefore not included in the figures upon which the grant is based. In other words, all derating grants were computed for exempted properties as of the standard year 1928-29. As this base becomes further and further removed from present conditions, some dislocation must occur, and since derating was forced upon the local authorities for the benefit of the country as a whole, it seems some method of paying according to actual loss would be an improvement over the existing statute.

Some indication of the magnitude of these items may be derived from the following data showing the distribution of the county block grant for the first year of the second grant period, 1933:

## I. Payable to county districts out of the block grant:

(a) Capitation grants to urban and rural districts . . . . .	£ 9,585,046		
Deficiency grant . . . . .	228,443		
	<hr/>	£ 9,813,489	34.8%
(b) 75% of losses on special and parish rates . . . . .		347,160	1.2%
(c) Maternity and child welfare Committee . . . . .		189,364	.7%
		<hr/>	
		£10,350,013	36.7%

## II. Balance payable to county council: . . . £16,942,720

Additional exchequer grant . . . . .	39,992		
Supplementary grant . . . . .	847,977		
	<hr/>	£17,830,689	63.3%
		<hr/>	
		£28,180,702	100.0%

The balance shown in II is available for county requirements and by reducing rates is really distributed among the county ratepayers on the basis of rateable value. The deficiency, additional, and supplementary grants represent funds supplied by the Exchequer over and above the amount of the national pool. To summarize the purposes of these funds once more: the "deficiency grant" went to counties where the capitation payments exhausted the county's block grant; the "additional Grant" was paid to those counties that did not show a gain of one shilling per capita prescribed in the statute; finally the "supplementary grant" filled the gap between losing and gaining areas within any one county.

In spite of these various efforts to smooth the rough path of transition the actual application of the system showed startling gains and losses within single counties. Enumerating the obvious defects in the capitation system, it may be noted first, the grant received by the local unit was not affected by its losses due to derating; hence two areas may have received the same grant though one may have lost a large amount of rateable value. Second, while expenditure is broadly related to population, yet it is not immediately adjustable to diminishing numbers. The result is a smaller grant, though expenditures cannot be reduced proportionately. This same point was made in criticizing the weight given to population in distributing the national pool among counties and county boroughs, but it applies *a fortiori* to the capitation grants within a county where

population is the one and only factor. Third, the capitation system ignores special local burdens and intensifies them by reducing the tax base. Fourth, a highly rated area gets the same capitation grant as a low rated area, if the population is the same. In brief, the system benefits those local authorities which (a) had a low percentage loss of rateable value and (b) had relatively low rates in the standard year. The effect is serious when expenditures on heavy public assistance or local improvements have increased since the standard year 1928-29, for rates to provide revenues are necessarily higher on the reduced tax base. Increasing expenditures always weigh more heavily upon local authorities with decreasing rather than increasing rateable values.

These various criticisms indicate that one objective behind the 1929 Act, to wit, the distribution of funds according to need, is very imperfectly realized. Local authorities point out that these actual effects have not been generally recognized due to the transfer of functions to the county, the payment of derating compensation, and because the Supplementary grants prevent any immediate increase in rates. The provision for Supplementary grants is only a temporary stop-gap, however, and when the full formula becomes operative the inequities of the capitation system will receive more publicity.

If the present system of distributing grant money among the subdivisions of the county appears so unsatisfactory after the above criticisms have been made, what can be found in the way of alternative methods which might remedy the defects? Any such device, in addition to being workable, must square with the major premises of the Local Government Act, that is, grants are henceforth to be made on the basis of need and will no longer be measured by the amount of expenditure. Then too, the derating losses, about which so many local authorities have been fretting, are the result of a reform in the basis for rating. Parliament decided upon these two vital changes, so any alternative method of distribution must not attempt to counteract them, either by paying derating losses to the place of origin, or by linking grants to expenditure.

The first possibility is that of distribution on a weighted population just like the counties and county boroughs. Thus the actual population could be one factor in the formula, and be

weighted by the usual children under five, and rateable value when it is under ten pounds per capita. Since poor relief has been transferred to the county and most of the unemployment burden assumed by the national government in the Act of 1934, the unemployment factor need not be included. The argument for this basis of distribution is sound, for if the formula measures "need" for counties and county boroughs, it should do the same for local areas within the county.

A second alternative method would be to reimburse all local areas for derating losses in the standard year 1928-29 before any further division is made. This might remedy the defect of the present capitation system which ignores derating, but it fails to note increases or decreases in rateable value since the standard year, and even more important, it violates one of the cardinal premises of the 1929 Act noted above, that is, that derating was a national reform which would be vitiated by paying derating losses to the point of origin.

A third basis is a possible combination of the first two where-in the capitation grant would be (1) based on actual population and (2) weighted for the percentage which derating losses bear to the unreduced rateable value in the standard year. In other words, if the rateable value in 1928-29 were £100 and under the Act £30 were exempted, the actual population would be weighted by 30 per cent.

Still a fourth basis would include the *rate burden* as a factor in addition to population. It has been much publicized and often urged that such a factor be inserted in the regular formula distributing the national pool, as well as in a formula redistributing funds to sub-county units. One variation of this scheme is to divide the county's block grant between the county council and the separately rated areas within the county, in proportion to the rate-borne expenditure during the preceeding fixed grant period. While county and county borough councils are guaranteed a gain of one shilling per capita, the local districts enjoy no such guarantee, so it is felt by many that some plan recognizing rate burdens would be a real improvement.

So much has been said for this and related ideas that it is worthy of some detailed consideration. First of all, the alleged advantages of including rate burden as a factor are:

1. The special local burden would then attract a due proportion of the grant, varying with the extent of services.
2. Progressive authorities could get more, because of their increased expenditures, that is, the grant would become flexible.
3. The action would become applicable to all counties and the Minister of Health would not have to pay deficiency grants as was done in Middlesex and Surrey.
4. Decreases in population would not reduce the amount going to local authorities until a corresponding decrease in expenditure is effected.
5. No extra money would be required from the Exchequer.
6. The easy method could be understood by all.
7. Any revolutionary change would be avoided in the present level of rate poundages.

The advocates of this new factor recognize the possibility of promoting reckless expenditure and discouraging economy, but, they reply, this danger is overemphasized and the control of central over local authorities is enough to prevent any great increase of expenditure. The exact nature of this "control" will be reserved for a later chapter. Moreover, they argue, the ratio of grants to expenditure is not sufficient to warrant increased expenditure simply to get a larger portion of the county's block grant.

In criticism of any scheme to include rate burden as a factor or to link the county block grant and local capitation grants to expenditure, much can be said. Whenever the needs of a county are ascertained without regard to expenditure, *any* method of subdivision will result in some anomalies and can hardly hope to satisfy everyone. How, precisely, shall this factor of rate burden be measured? One method would be to take rates in the pound (that is, the tax rate) for each local area and compare them. The community with the highest rate is then bearing the greatest rate burden. Such a crude method is clearly unsatisfactory for burden is not represented by the poundage rate alone but depends on the rateable value per capita as well. Hence:

Rateable Value	Poundage Rate	Absolute Burden
£500	2s.	£50

A second method, therefore, might be the computation of



poundage rate per head of population; that is: (assuming population is 100)

$$\frac{£500 \times 2s}{100} = 10s, \text{ or the relative burden.}$$

This measure cannot be stressed too much, however, because the distressed condition in a certain local area resulting from unemployment would exist whether rates were high or low. A situation is probably less deplorable if the rates are high due to heavier expenditure on social services. Yet it seems clear that additional funds from the Exchequer should not be provided simply because rates are high, or needed aid withheld because rates are low. Rates are only symptoms and any remedy, for example, a factor in some formula, should not be aimed at correcting the symptoms but rather the toxic condition which exists and produces the symptoms. Finally, let it be said that high rates may or *may not* be symptoms of a toxic economic condition, and a formula factor can scarcely be based upon such indeterminate ground. For the present, therefore, it seems poundage rates, either absolute or relative, must be rejected as a satisfactory measure of burden.

A second major criticism of this attempt to link capitation grants to expenditure is that it fails to consider the effect of the cost of supplying services in areas having a considerable increase in population. At least the present system does allow for that by the flat grant per capita to be paid by the county council to local areas. In the converse situation, an abnormal fall in population in an area due to the shifting of industry, the present arrangement is not so equitable. It might be corrected by setting a minimum below which the grant cannot immediately fall, or by allowing a considerable lag in calculating the effect of the decreased population. The first arrangement would give the local authorities something comparable to the one shilling guarantee assured to counties and county boroughs. The second scheme recognizes the fact that expenditures do not decline directly with population.

All in all, it must be concluded that the general proposition to distribute grants within the county on the basis of rate-borne expenditure would result in a repetition of the old percentage system and all its weaknesses. First, those rare economical

authorities would be penalized; second, it has been seen that total expenditure is not necessarily an index of need; and finally, while it might prove advantageous for some areas, a national formula cannot proceed on the basis of one county or a few individual areas—it must be tested for the whole country.

A similar conclusion must be reached concerning the losses from derating which, some have argued, should be restored to the losing areas before the national pool is distributed on the formula basis. Prior to 1929 percentage grants went to many local authorities which, relatively speaking, could have done without them. The Local Government Act was devised to stop this drain on Exchequer money and now to pay each area unconditionally the amount lost due to derating would vitiate the very “foundation stone of the block grant.”

## CHAPTER V

### IMMEDIATE FINANCIAL EFFECTS OF THE LOCAL GOVERNMENT ACT

The foregoing chapters have been devoted to a detailed discussion of the block grant formula with critical examination of each factor and the wide variety of possible changes that might be made. For purposes of exposition the early effects of the 1929 Act on local government finance will be discussed in this chapter. While there is some risk of repetition in thus handling the materials, it has the distinct advantage of segregating the actual fiscal effects in one chapter. This obviates the necessity of plowing through the long discussions of the preceding chapters if one only wants the fiscal situation without inquiring into the methods of distribution. Before proceeding to a discussion of the fiscal effects on local government, it will be enlightening to consider briefly the effect upon the national budget of these large Exchequer grants, together with a survey of how the 1929 Act was originally financed.

#### EXCHEQUER

The Local Government Act of 1929 was conceived in a period of prosperity, born on the eve of economic collapse, and painfully nurtured through the succeeding period of depression in the face of shrunken revenues and huge deficits. Mr. Churchill was Chancellor of the Exchequer and found himself at the end of the fiscal year 1927-28 with a surplus of £4,239,000. The movement for relief to local ratepayers had been gathering momentum; pressure from industrial groups was not without its effect; and the system of grants then in operation was so chaotic that the time seemed opportune for some reorganization and reform. Consequently the Chancellor planned a surplus in the 1928-29 budget of £14,500,000, which could be added to the 1927 surplus and made available for (a) contingencies in the 1928 budget and (b) a Suspensory Fund for Rating Relief. The year 1928 turned out better than expected

and yielded a surplus of £18,394,000, so that on April 1, 1929, there was available in the Suspensory Fund for Rating Relief:

1927 surplus .....	£ 4,239,000
1928 surplus .....	18,394,000
	£22,633,000

With this accumulated reserve to absorb the initial shock for the Exchequer, and with no apprehensions for the future, fiscally speaking, the new law was enacted. Optimism ran so high that instead of waiting until October, 1929, to make the agricultural relief effective, it was decided (after due prodding by the appropriate interests) to anticipate the provisions and derate agricultural holdings at once. This change cost £2,570,000 and reduced the Suspensory Fund to £20,063,000.

The budget for 1929-30 was estimated at about the level of actual expenditure for the previous year, exceeding it by only £2,250,000 making the total budget £741,964,000. Some items were reduced, namely,

Sinking fund payments.....	£ 7,109,000
Interest on debt.....	6,891,000
	£14,000,000

and this anticipated saving plus the estimated yield of the new petrol duty of £15,700,000 would largely finance the cost of the new act in the first year of its operation, 1929-30; thus the Suspensory Fund would not have to be tapped.

The second year of the new Act, 1930-31, was to be financed as follows:

Petrol duty .....	£17,000,000
Road Fund .....	3,000,000
Suspensory Fund .....	16,000,000
	£36,000,000

Once again there would be no drain on the Exchequer's regular revenues.

For the third year, 1931-32, the reserves would be exhausted and the burden would presumably begin to settle on the Exchequer; in this year the financing was to have been as follows:

Balance in Suspensory Fund.....	£ 4,000,000
Petrol duty .....	18,000,000
Exchequer .....	14,000,000

£36,000,000

In laying out these plans in 1928 and 1929, Churchill counted on the normal growth of revenue to make up this deficiency of £14,000,000 so the Exchequer would not be forced to levy new taxes or retrench elsewhere. Even if the plan had worked perfectly as outlined for the first three years of the new Act, it is clear that the cost of derating was not fully covered beyond 1930-31, the second year. Thereafter it was up to the Exchequer to carry the load.

That this plan of Churchill's should fail completely in the face of depression and sharply decreased revenues, goes without saying. The 1929 budget, instead of yielding a surplus of £12,000,000 as planned, ended in a deficit of £14,523,000. Consequently in April, 1930, taxes on beer, income, and estates were raised, but the budget for that year, 1930-31, produced a still larger deficit of £23,276,000. Once more in April, 1931, new levies were imposed, ostensibly to meet the expected deficit in 1931-32 of £37,000,000:

Take from Exchequer reserve.....	£20,000,000
Income tax installment changed.....	10,000,000
Increased oil duty.....	8,000,000

£38,000,000

Since a good share of this amount represents the costs of the Local Government Act imposed upon the Exchequer, these new levies plus the 4 pence petrol duty represent in part the shifting of the burden from local to national shoulders. The fiscal situation went from bad to worse and in September, 1931, drastic increases in taxes were levied, and severe economies enforced, the details of which are not relevant here. It is no wonder that Snowden, Churchill's successor in the Exchequer, complained bitterly against the Local Government Act as "a liability from the previous government."

Once the Exchequer had been adjusted to the new burden placed upon it, as described above, the continuing load remained relatively stable.

	Block Grant Payable	Less Discontinued Grants	Balance Financed By:		
			Road Fund	Local Contribution	General Funds
First Grant Period					
1930-33 .....	£44.8	16.3	5.7		22.8
Second Grant Period					
1933-37 .....	45.3	16.3	5.7		23.8
Third Grant Period					
1937-39 .....	49.9	16.3		2.4	31.2
1940 .....	49.5	16.3		3.0	30.2
1941-45 .....	49.4	16.3		3.4	29.7
Post War Transition					
1945-48 .....	59.4	16.3		3.4	39.7

The discontinued grants of £16.3 million are deducted in ascertaining the net increase in the Exchequer load as a result of the block grant. In other words, had no reforms occurred, the Exchequer would have still paid out £16.3 million on specific grants.

The Road Fund received all revenues from vehicle taxation and petrol duties which in 1936-37 amounted to £68.6 million. While these revenues were earmarked for highway purposes, the Road Fund had been a favorite for "raids" by hard-pressed Chancellors of the Exchequer. It was abolished in 1937-38 and thereafter its revenues were commingled with the general funds.

The items shown as Local Contribution represent first, the 60 per cent required of local governments in lieu of their former expenditures on public assistance transferred to the central department; second, the deficiency grants made to Middlesex and Surrey; third, a payment in lieu of expenditure on Old Age and Widow Pensions; and finally, a payment in lieu of expenditures on trunk roads also transferred to the central department. For the year 1941, these contributions from all local governments amounted to the following:

Unemployment Act 1934 .....	£2,187,000
Trunk Roads .....	133,000
Deficiency Grants .....	100,000
Old Age and Widows Act 1940 .....	1,000,000
	<hr/>
	£3,420,000

The total burden on the Exchequer for the block grant has

thus been relatively small, or about £30.2 million in 1938-39. Even if the figure for total grants (including block grant) be taken, it would be £140.2 million in that year. Compared with total expenditures of the National Government, excluding the military or defense, these amounts may be noted:

GRANTS AS PERCENTAGE OF TOTAL EXCHEQUER EXPENDITURES<sup>1</sup>  
(Millions of Pounds)

	Total Expendi- tures	Defense	Net Expendi- tures	Total Grants Amt.	%	Net Block Grant Amt.	%
1930-31	£ 755	£110	£645	£130.2	20.2	£22.8	3.5
1933-34	711	108	603	122	20.2	23.8	3.9
1937-38	898	266	632	136	21.5	31.2	4.9
1938-39	1068	399	669	140	20.9	30.2	4.5

Total grants remained remarkably stable with respect to non-military expenditures of the National Government, averaging about 20 per cent through the thirties. Later years are so weighted with war items that comparisons do not have much significance. Likewise the block grant, or rather that portion which fell upon general funds, maintains a stable proportion to the total Exchequer expenditures. The increase from 3.9 to 4.9 per cent is not a real increase, for it merely reflects the abolition of the Road Fund in 1937-38. Thus the £5.7 million that used to come from vehicle and petrol taxes in the Road Fund was now provided from general funds like the rest of the block grant.

#### LOCAL AUTHORITIES

The immediate effects of the 1929 Act on local authorities are considered in the remaining portion of this chapter. The "immediate effects" were those felt in the first and second fixed grant periods, that is through 1936-37. The effects subsequent to this period are reserved for consideration in Chapter IX on "Evaluation of the Local Government Act 1929," where the period of the late thirties, plus the war years may be treated together. For the present, it will suffice to review a little of the background and to observe some of the trends in central-local relations prior to and immediately following the 1929 Act.

<sup>1</sup> W. A. Morton, *British Finance 1930-40* for data on expenditures. Also *Statistical Abstract of United Kingdom*, 82d No., p. 175.

Local government finance in Great Britain before and after World War I was characterized by two phenomena: a consistently rising level of rates, and second, an increasing dispersion of rates between the units of government. The situation with reference to rate levels is easily seen in the following data giving the average rates per head: <sup>2</sup>

	£	s.	d.
1914.....	1	18	11
1921.....	4		11
1928.....	4	4	10
1933.....	3	12	9
1936.....	4		
1939.....	4	14	1

The causes of this increase were primarily three. First, the rising prices with the consequent rise in government expense during and after World War I was a factor, but when prices fell subsequently services expanded and expenditures continued to rise. The magnitude of this expansion in postwar services is best indicated in the table below: <sup>3</sup>

	1912	1928	1933	Increase	Percentage
	(Millions of Pounds)				
Elementary Education ....	£14.1	£27.6	£31.8	£17.7	125%
Public Assistance .....	10.7	29.9	31.5	20.8	194
Roads and Bridges .....	15.5	33.9	35.4	19.9	128
Public Health .....	12.1	28.2	40.8	28.7	237
Police .....	4.4	10.3	10.6	6.2	146

Second, local expenditures were stimulated by grants from the central government. These grants, however, filled a double purpose: as a bait to encourage services and also as an attempt to limit the financial responsibility of the national budget. In 1908 the revenues assigned to local authorities under the Act of 1888 were fixed at a constant sum for each service. The effect was that of a block grant within the grant period instead of the annual percentage basis then being used. This scheme threw all the fiscal uncertainty upon the local governments, and increase in tax revenues over and above the fixed sum was available to the Exchequer. Such changes as these prior to

<sup>2</sup> *Local Government Finance*, Vol. 48 (December, 1944), p. 221; U. K. Hicks, *Finance of British Government 1920-1936* (London, 1938), p. 150.

<sup>3</sup> Hicks, p. 152.



1929 were all in favor of the central government which was safeguarded at the cost of rising local rates. Since 1929, however, there have been few changes unfavorable to local government, at least from the fiscal point of view, and reserving the question of control. The Unemployment Act of 1934 transferring responsibility for able-bodied unemployed to the National Government greatly relieved the local authorities; yet they still paid into the Exchequer an annual sum equal to 60 per cent of their expenditures on unemployment in the year 1932-33. This contribution was calculated at £2,187,000 annually; therefore a lump sum was deducted from the block grant pool at the beginning of the third grant period and in all subsequent years. Since the base year, 1932-33, marked the peak of unemployment, the Exchequer gained as unemployment decreased and the local governments' contribution continued unchanged through the war years of full employment.

A third reason for rising rates lies in the inflexible nature of the valuation or rateable value. The local governments had the choice of either expanding assessments or raising the poundage on existing valuations. Doubtless the latter was less expensive to administer and perhaps calculated to arouse less opposition than an upward revision of rateable value every few years.

Dispersion of rates among local areas was noted above as the second important characteristic of local finance prior to 1929. These varied from five shillings to thirty-five shillings in the pound, whereas public assistance rates taken alone showed even greater divergence, varying from six pence to eleven shillings. Evidently the time for some reform or an attempt to equalize these great divergences was long overdue.

The Rating and Valuation Act of 1925 was an attempt to secure uniformity and regularity of valuation.<sup>4</sup> To accomplish this it enlarged the administrative and valuation area, thereby reducing the number of separate independent rating authorities from 14,330 to 1,770. This was a vast improvement, to be sure, but the cause of rate disparity lay deeper than mere administration; these revised areas still differed in size, population, and wealth, and therefore in their suitability for economic self-

<sup>4</sup> 15 & 16 Geo. V, c. 90, The Rating & Valuation Act, 1925.

administration. Despite these differences in resources they were expected to provide the same services on a more or less comparable standard.

Viewed from the revenue side the existing disparities became cumulatively worse instead of better.<sup>5</sup> This follows from the levying of local rates upon the occupier of property who is able to shift interlocally; that is, residential people will move to the country or industrial plants will move, taking with them the better paid workers. Moreover, after an industrial move those individuals left may be a liability instead of ratepayers. High rates deter other industries from moving in, especially when the choices of location have been widened by the diffusion of transport and power. Besides shifting individuals, a whole district may "secede" from a certain rating area by changing its administrative status to become part of a county borough, the County Council thus losing part of its taxable area. Under such circumstances, an increase in poundage may yield little or no increase in revenue, and while this weakness of the rating system is not new, it becomes conspicuous when rates are so high as to make payers sensitive.

Viewed also from the expenditure side, the strain on local authorities is cumulative.<sup>6</sup> Poor areas are frequently accused of extravagance because they have high rates, especially if anyone suspects them of reformist politics. In fact, of course, their resources may be so inadequate as to make extravagance impossible, while others may attempt such drastic cuts on services like public health that they fall far below the normal standard for the country.

The problem of depressed areas is particularly acute, and while the reforms of 1929 have given some aid, the chronic distress of such areas has scarcely been alleviated. In these local units the greatest cause of rate losses is not the residential shifting noted above, but the general secular trend in population drift to the southeast where industries are developing, leaving the areas in the north in a state of chronic depression. These areas also lose revenue from their trading services (public utilities) which are the only other sources of revenue under their control. Finally, the widespread default by ratepayers

<sup>5</sup> Hicks, p. 158.

<sup>6</sup> *Ibid.*, p. 160.

during the great depression made administration difficult. The whole question of depressed areas is, of course, a socio-economic problem with wide ramifications, and no fiscal device can make a substantial impression upon it.

The 1929 Act was devised to correct these two conditions of high rate levels and wide dispersion of rates between local authorities. By putting the emphasis on needs rather than expenditures as a major criterion of central aid, it was expected that a substantial amount of equalization between local units of government would result. Prior to 1929 only 20 per cent of the grants were directed to any kind of equalization whereas after 1929 about 70 per cent were so disposed. The enormous increase in the volume of Exchequer contributions to local government, both absolutely and relatively, acted to lower the poundage rates and provide substantial relief to local rate-payers. In a way this was merely a further extension of the process already of long duration as indicated in the following table which shows the increasing percentage of total local revenues supplied by the Exchequer: <sup>7</sup>

	Rate £	Grant £	Total £	Rate Percentage %	Grant Percentage %
1884. ....	25.7	3.6	29.3	87.6	12.4
1904. ....	56.0	19.6	75.6	74.1	25.9
1924. ....	146.3	120.5	266.8	54.8	45.2
1928. ....	166.0	93.8	259.8	63.9	36.1
1929. ....	156.3	114.3	270.6	57.7	42.3
1930. ....	149.9	138.7	288.6	51.9	48.1
1931. ....	148.3	135.5	283.8	52.1	47.9
1932. ....	146.3	126.6	272.9	53.6	46.4
1933. ....	147.7	131.8	279.5	52.8	47.2

On the average, rates fell from 12s. 10½d. in 1938 to 10s. 10d. in 1933. As this took place in spite of the depression which normally would have caused a rate increase, the decrease in local burden was really larger than the figures would indicate taken by themselves. This, of course, represents the average for the whole country and not all local units could enjoy a rate decrease. It will be remembered from earlier chapters that local units having an increase in rates as a result of the 1929 Act were designated as "losing" areas and were compensated by the

<sup>7</sup> *Ibid.*, p. 151; Mabel Newcomer, *Central and Local Finance in Germany and England*, p. 207. Ministry of Health, *Annual Reports*.

supplementary grant. By 1939, however, the average rate was back to pre-reform levels at 13s. 6d.

There was still a wide range of dispersion in rates even after the 1929 Act as is seen from these figures for 1934:

	High	Low
Urban .....	27s. 6d.	5s.
Rural .....	25s. 3d.	3s. 4d.

Some equalization was achieved, nevertheless, for the standard deviation of all rates fell from 3.43 in 1928 to 2.95 in 1932. In other words, the rates were bunched more closely around the general average in 1932 than they had been in 1928. By 1939 the dispersion range was approximately the same, though the whole scale had shifted upwards.

	High	Low
Urban .....	30s. 6d.	7s. 10d.
Rural .....	28s. 8d.	6s. 5d.

In the depressed areas the improvement was less marked if not entirely lacking, probably because the reforms were not drastic enough, or the formula as presently constituted passed by such areas. For example, none of the five county boroughs with the highest rates are among those county boroughs which received the largest grants, and those counties receiving the largest grants are not those with derelict urban areas.

#### GRANTS AS PERCENTAGE OF RATES AND GRANTS:

##### SELECTED COUNTY BOROUGHES 1936-37<sup>a</sup>

	Percentage %	Rate Poundage s. d.
St. Helens .....	55.7	16 5
West Hartlepool .....	54.1	10 6
Middleborough .....	53.3	14 0
West Bromwich .....	52.4	15 0
Meathyr Tydfil .....	51.5	29 0
Dudley .....	50.7	16 0
Bootle .....	50.4	13 6
South Shields .....	50.4	14 6

Out of 83 county boroughs, 8 received grants for rate fund services in excess of 50 per cent of total rate and grant-borne expenditure. Yet from the above data it appears that the high

<sup>a</sup> *Local Government Financial Statistics, 1936-1937*, Part I, pp. 205 and 213. An account of specific cases showing the fiscal effects of the Local Government Act is to be found in Newcomer, Chap. 11.

proportions of grants do not necessarily go to those communities with the highest tax rates.

The situation with respect to counties and their subdivisions is even more striking with a conspicuous absence of correlation between high rate poundages and percentage of total revenue derived from grants. Here 47 of 62 administrative counties received more than 50 per cent of total revenues from the Exchequer. This calculation includes the revenues, grants, and expenditures of all local authorities within the county as well as the County Council. The rate poundages given for each administrative county are the "equivalent rates"; this "equivalent" is the rate that would be necessary (if levied on the total rateable value of the county) to yield a sum equal to that raised by all local authorities within the county.

#### GRANTS AS PERCENTAGE OF RATES AND GRANTS:

##### SELECTED COUNTIES 1936-37<sup>a</sup>

	Percentage %	Equivalent Rates	
		s.	d.
Huntington .....	75.4	8	11
Montgomery .....	74.8	12	2
Rutland .....	69.4	9	10
Lincoln: Holland .....	68.9	12	11
Hereford .....	64.5	9	9
Cardigan .....	64.3	15	6
Oxford .....	63.1	10	6
Carmarthen .....	63.0	20	0
West Suffolk .....	60.7	12	9
Durham .....	60.7	17	8
Monmouth .....	58.3	19	3
York: East Riding .....	58.4	11	9
Denbigh .....	54.2	15	8
Nottingham .....	54.2	11	7

The above table shows selected pairs of administrative counties, each pair receiving about the same percentage from the Exchequer but varying widely in the equivalent rate poundages. The perverse "equalization" of these grants is absolutely clear when Carmarthen gets the same proportion as Oxford though its rate poundage is almost double. Moreover in rateable value Oxford has £5 per capita while Carmarthen has only £3. 1 per capita. A similar contrast exists for Monmouth with a rate poundage of 19s. 3d. on a per capita rateable value of £3.5, and York, East Riding, was only 11s. 9d. as an equivalent rate

<sup>a</sup> *Local Government Financial Statistics*, Part II, p. 77.

on a per capita rateable value of £4.8. Yet both counties receive an identical proportion of their revenue from the Exchequer.<sup>10</sup>

The failure of the formula to achieve a greater degree of rate reduction and equalization between local units of government may be due in part to derating with its many fiscal repercussions rather than to any single factor in the formula. Thus the loss of income from derating in poor districts was heaviest, since in such areas the factories were the largest ratepayers; on the other hand, the rateable resources of residential areas were scarcely affected by the 1929 law. While this dispersion of derating losses apparently caused some of the equalizing effects to be lost, it must also be remembered that in the second grant period, from which these examples have been taken, the full equalizing effect of the formula was not yet operative. In that period 75 per cent of losses due to derating were reimbursed before any money was distributed according to formula. In the long run, however, such narrowing of the tax base must throw the weight of expanding needs on other ratepayers, probably through increased national levies which will reach the incomes and consumption of those living in these comparatively wealthy residential areas. Moreover, as Sykes points out,<sup>11</sup> this shift in burden may be expected to have a felicitous effect on production and consequently the national income, since national levies tend to reach surplus elements in the taxable incomes of business whereas local rates are definitely a part of the cost of production. An evaluation of this argument is reserved for a later chapter.

There are others who feel this system is simply postponing the evil day by shelving the problem of local finance. The fact that the present large differentiation in grants has had but a small effect on rate disparity and only partially checks the tendency of inequalities to grow, lends force to this argument. The high percentage of grants required raises the thorny question of control by the National Government which is anathema to most local authorities. To this crucial factor the next chapter is devoted.

<sup>10</sup> These counties and county boroughs with such high proportions of Exchequer money present vulnerable objects for increasing central controls.

<sup>11</sup> Joseph Sykes, *Study in English Local Authority Finance* (London, 1939), pp. 213-232.

## CHAPTER VI

### ADMINISTRATION AND CONTROL BY CENTRAL GOVERNMENT

The problem of administrative control under the Local Government Act of 1929 is simply part and parcel of the more general problem of central-local government relations; some discussion of this more general problem is a necessary introduction to the appraising of the 1929 Act. The dilemma which has existed in all attempts to deal with central-local government relations is twofold: first, the central control allowed fewer benefits of local initiative; and second, as more and more freedom is allowed, uniformity of development along some national line becomes increasingly difficult.

Mrs. Hicks has suggested that social policy has two parts: a long-range development or planning which is pursued steadily under normal conditions, and short period policy for extraordinary events such as reducing trade fluctuations. Concerning the long run, "experience suggests . . . it is usual in this country [Great Britain] for the policy of the central government to be more progressive than that of the smaller communities."<sup>1</sup> The logical inference from this position is that increased central control is necessary if progress is to be evenly maintained in all sections. In the short run, it is desirable—so the argument runs—to vary the tempo of public spending in order to achieve short-run objectives. Again the logical inference seems to be in the direction of increased control by the central department to secure rapid joint action by all public authorities. The query may now be put: how has Great Britain adjusted its central-local government relations to these long-and short-period problems in the past, and does the Act of 1929 seem consistent with the inferences noted above?

When central-local relations were set up in the last quarter of the nineteenth century, with the reforms of 1888 establishing a system of representative government, *laissez faire* was dominant in the field of political philosophy; hence great importance was laid upon local initiative. The elective councils organized

<sup>1</sup> Hicks, p. 147.

in 1888 were modeled after the town corporation with all of its traditional independence, and local finance was intended to be completely free from any central oversight. *Laissez faire* was the rule in practice as well as theory, and no control was exercised over the assigned revenues except as they may have been earmarked for specific purposes. Even the accounts of municipal corporations, that is, county and county boroughs, were exempt from audit by the central government or any compulsory professional audit.

The dilemma of central-local relations was presumably resolved by establishing a sort of division of labor allocating the several functions of government according to the nature of the services. First, those services which were still of purely local import were left up to local initiative. There was, however, a limiting factor on local initiative in the concept of Parliament as the supreme authority. The range of local services could not be expanded indefinitely for it was "fundamental in the British system that local activities are confined to services specifically allowed, any attempt to extend their functions . . . being *ultra vires*."<sup>2</sup> Second, there were those services of concern to the entire nation but traditionally performed by local authorities. In these the central government would make a contribution toward the cost and exercise some supervision over the standard of performance. To preserve this line of demarcation a system of assigned revenues was adopted in 1888 whereby certain taxes were collected centrally and earmarked for local coffers. Other taxes went into the Exchequer which in turn made some specific contributions to local authorities for national services. Finally, there were the familiar local rates levied on the rental value of real estate in sufficient amount to pay the balance of the bill.

Thus was the dilemma resolved, but not for long, as the earlier chapters have indicated. The volume and quality of social service expanded greatly so that assigned revenues and local rating were inadequate. The notion of what constituted a national service was continually broadened: the old were expanded and new ones inaugurated which led to increased contributions from the Exchequer. Moreover, the central government resumed its pre-1888 policy with an extensive

<sup>2</sup> *Ibid.*, p. 148.



though poorly integrated program of encouraging new services by grants-in-aid. The result was such an intricate interlacing of central-local administration and finance that continued "division of labor" and demarcation became impossible. Mutual cooperation was left as the only way to resolve the dilemma that had emerged once more.

The central government can exercise control over local finance by at least two methods: political supervision and direct financial control. First, as already noted, Parliament holds full power of initiation implicit in the doctrine of *ultra vires* so that local freedom is impossible of full attainment. During the pre-war system of assigned revenues there was a large amount of permissive legislation enacted by Parliament, which was inoperative without the stimulant of a grant. As a result, little or no influence was felt on the local budget. Legislation in the twenties by Parliament, on the contrary, was often compulsory or heavily aided by grants and the former type of permissive unassisted legislation practically disappeared. The local budgets were profoundly affected by this shift which at the same time has entirely altered the quality of central control.

Parliament can set the political and so the financial status of any single local authority, though there has been a gradual tightening of the requirements for a rise in status, say from urban district to non-county borough, or non-county borough to county borough. Moreover, the urban districts are now subject to direct control by audits; therefore larger numbers come under the central eye than was formerly true.

A compulsory change of administrative status is also possible if Parliament finds the situation sufficiently acute. A Royal Commission studying depressed areas has recommended some such compulsory change in the status of Merthyr Tydfil and sections of the Tyneside areas, but as a rule this power has been held in reserve for real crises.

The second form of central control is not a new one, for explanatory orders and advisory circulars have long been used to bring direct pressure on any local authority.<sup>8</sup> The Board of Education used this method to bring local standards up to a uniform level and with the wide range of wartime legislation operating through the Ministry of Health, the scope of such

<sup>8</sup> *Ibid.*, p. 170.

action has been greatly expanded. These orders increase legislative control by making the administration of general statutes more explicit and detailed than could otherwise be done. Advisory circulars are not mandatory, but there is a strong tradition concerning them which gives the central authorities real powers of moral suasion, especially in financial matters. Even if there be no conflict between central and local policy, these circulars serve to reinforce legislation; the rapid spread of the spirit of economy among the local government units in 1931 is an example of their potential effectiveness.

Whenever percentage grants are used, it is expected they will stimulate local services and may at the same time increase central control. It has always been understood that such a grant might be withheld if extravagance or inefficiency on the part of the recipient authority should become evident, or the central department might reject an expenditure as not qualifying under the purposes of some statute. Such power to withhold grants was rarely exercised, as the mere threat of action usually provided sufficient stimulus to the erring local authority.

Since the block grant eliminates this particular type of control, section 104 was included in the Local Government Act of 1929 which, on its face, seems to convey sweeping powers to the central departments. This section provides that whenever the Minister of Health is convinced, first, that a reasonable standard of efficiency and progress is not maintained or second, expenditures are excessive or unreasonable, he may reduce the grant to a Council. Associations and experienced bodies can recommend such action to the Minister of Health on their own initiative, so no local authority can hope to escape constant surveillance. This control, it must be emphasized, is not confined to any particular service; it is not even limited to grant-aided services but applies to *any* expenditure of the local government. Thus the local authority might raise money in the time honored system of levying rates on its own rateable values, but its expenditure of such revenues must be for purposes that are "reasonable" and not "excessive" in the eyes of one central department, the Ministry of Health. The Ministry, if it cuts a grant, must report that fact to Parliament, but the decision does not require any Parliamentary confirmation. The Ministry power is absolute unless Parliament deigns to interfere in behalf of the local government.

In an effort to ascertain the force of this control exercised by the Ministry of Health, correspondence was again initiated with local government associations in Great Britain. The results show that in the 15 years of operation under the 1929 Act, no local authority has yet had its grant reduced, nor has any local government association recommended such action to the Ministry.

Another administrative question of considerable interest is the exact nature of the relation between the Ministry of Health and the elaborate formula which it solves once every five years. Some students of public administration have viewed the formula as a "thinking process" which the Ministry of Health goes through before allocating the block grants to the various authorities.<sup>4</sup> By exercising rather wide discretion at several points in the calculation, it is alleged that the Ministry contrives eventually to place the money "where they want it to go." This view gathers its force from the early statements of Mr. Neville Chamberlain, Minister of Health when the 1929 Act was under debate in Parliament; in defending the complicated formula, he justified it on exactly that basis.

Be that as it may, the fact remains that the General Exchequer Contribution is relatively fixed both in amount and in the details of its distribution. The range of Ministerial discretion, while extensive, is confined to a series of lesser adjustments. Block grants may be centrally adjusted as a result of boundary alterations in county and county boroughs; districts within a county may be changed, created, or abolished with accompanying changes in capitation grants and the county apportionments. Again, any changes in local responsibility may affect schemes under Section 93 of the 1929 Act, which provides sums to be set out of a county block grant for maternity and child welfare services. It seems, therefore, that these discretionary functions of the Ministry are in the nature of adjustments to the larger pattern, rather than substantive changes. In brief, the Ministry of Health has wide discretion in trimming and filling the fringes to minimize the anomalies that must arise when so comprehensive a plan is imposed upon all local government. For example, changing the annual reductions of supplementary grants from one-fifteenth to one-thirtieth, or taking it out of

\* The writer is indebted to Professor Morris B. Lambie for numerous discussions on this point.

the county block grant as discussed in an earlier chapter, has affected only a few local authorities. Actually only 40 county districts, out of a total of nearly 1,400, have obtained relief by lowering the fraction; only two districts were judged to be in such straits that their reduction was shifted to the county. These are indeed adjustments on the fringe.

As for the substantive part of the block grant, its distribution becomes semi-automatic. The General Exchequer Contribution is apportioned on the arithmetical basis laid down in the Acts of 1929 and 1937, and the Ministry of Health has *no* discretionary power to vary the apportionment once the calculations have been made on the final data.<sup>5</sup> The calculations of weighted population for each county and county borough are available for inspection by the representatives of any local authority.

Past experience in Great Britain, with its high quality of civil service, indicates that the central government will continue to exercise careful judgment in applying its sweeping powers. But the fact remains that the local authorities have yielded a basic prerogative, namely, the right to raise and disburse revenue for those services which, in their opinion, the community desires. This statement will not seem too strong if it is recalled that, on the average, slightly less than 50 per cent of the local revenue comes from the Exchequer, and for many areas the percentage is much greater. Most authorities, therefore, are in no position to resist any pressure that might be applied by the central government.

The fact that the central government has been slow to use its power simply conceals the fundamental shift in premise that has occurred with the rising proportion of Exchequer money utilized by local authorities in their ordinary services. As noted in the Introduction, the shift in premise from "duty" to "power" was accomplished when the block grant principle was introduced. Under the "duty" thesis, only semi-national services would be grant aided and then on a percentage basis. Now under the power thesis, all services whether they be strictly local, such as street lighting, or semi-national, as health, or even national, as trunk roads, will be supported—and so controlled—by the custodian of the central purse strings.

<sup>5</sup> Correspondence with Mr. H. H. George, Ministry of Health, January 11, 1946.

## CHAPTER VII

### IMPACT OF WORLD WAR II ON LOCAL GOVERNMENT FINANCE

The outbreak of World War II in September, 1939, unleashed a series of new problems upon the heads of local government, and the wide variety of adjustments necessary to meet these issues changed the entire complexion of central-local fiscal relations. Responsibility for certain services was shifted, and financial adjustments were in a continual state of flux during the entire period. In general, the policy adopted was to distinguish services and expenditures peculiar to the war effort from those services which had previously been left in the hands of local governments. An extremely complex system of inter-government finance was gradually evolved as a result of meeting each new requirement with *ad hoc* measures. While new administrative levels of authority were created—on a regional basis—the money still flowed in its well-worn channels directly from the Exchequer to the local governments.

The Local Government Act, with its block grant provisions, was maintained throughout, though the rigidity of the system became painfully evident as additional increments were added to the already heavy rate burdens. The third fixed grant period (1937-42) expired in the middle of the war but by that time local authorities were convinced of the necessity for radical changes.

Shifts in population due to evacuation and war production, loss of revenue due to war damages and changing conditions in public assistance meant that any recalculation of the formula would have led to anomalous results. The "new" money would not have reached the local governments where it was most needed. Consequently an agreement was reached with the government to postpone any review and recalculations of the formula until the end of the war. Parliament acted accordingly in the Local Government Act, 1941.<sup>1</sup> Thus the 1929 and 1937 acts were amended to continue the third fixed grant

<sup>1</sup> 4 & 5 Geo. VI, c. 33, Local Government (Financial Provision) Act, 1941.

period until some date to be determined by Parliament after the expiration of the Emergency Powers (Defense) Act, 1939. It also provided that the Supplementary grant—reimbursing local authorities for loss of rates—would be continued in the same amounts paid in 1941-42, without the reduction which would have taken place under the original act. Finally it was provided that any sums for maternity and child welfare schemes would be continued without change.

Before proceeding to a survey of rateable values and of rates levied during the war years as a measure of the financial impact of the war, it will be appropriate to outline some of the major war duties which have been assumed by legal authority at the behest of Parliament. These include services in the Civil Defense such as Air Raid Precautions and shelter buildings, the transfer of whole services to a regional or national authority as in the case of Fire Brigades, and finally schemes for evacuation, education, and emergency medical services. The significance of all these additional duties for local finance is that, while each one of itself may be small, the cumulative effect of one penny in the pound for this and another for that, may be quite staggering to a local authority already pressed by its normal range of services.

### AIR RAID PRECAUTIONS

The years of legislation and controversy over the optimum division of cost between central and local governments for air raid precautions present an interesting chapter in the evolution of grants-in-aid, and accordingly may be outlined in some detail. Official cognizance of the gathering war clouds was taken as early as 1935 when the Home Office issued a circular, July 9, 1935, calling upon local authorities to make plans or "schemes" as the British call them, for the protection of the civilian population from air raids. The opposing lines of the cost controversy were soon discernible when the London County Council, December 11, 1935, informed the Home Secretary of its complete cooperation in Air Raid Precaution schemes, provided all expenses over and above the normal costs of local government services would be met by the state. In July and again in November, 1936, similar positions were adopted by

other local government bodies such as the City Councils Associations and the Association of Municipal Corporations. To consolidate their position the local governments' associations held a conference among themselves, March 18, 1937. They agreed on the policy that expenditures for Air Raid Precautions should be a national charge, like any other phase of the national defense, and pointed out that great expense would be incurred in establishing adequate fire brigade service, ambulances and first aid depots, in recruiting and training volunteers, and in general to organize over-all protective measures. In view of the government's reluctance to assume the full cost, the conference recommended suspension of all schemes until such time as the central government should accede.<sup>2</sup> As a result, the work of planning was suspended and various local government journals hailed this decision as a long overdue assertion of local independence against Whitehall's "habit" of foisting new and onerous financial burdens on local authorities, this in spite of the fact the Government later urged immediate action and promised to make any financial legislation retro-active to January 1, 1937.<sup>3</sup>

An attempt to break the impasse was made in a conference July 19, 1937, between the Home Secretary and representatives of the local associations. The Government's position was that the cost should be divided, with the larger portion taken by the state. It proposed to provide, at its own cost, such items as bleaching powder (for decontamination), gas masks, the capital cost of anti-gas schools, and the whole cost of central administration. Local authorities would then provide the balance of the service with a grant of 50 per cent from the Exchequer. It was a sort of division of labor: the central government furnishing the equipment and the local governments the services. This particular division was one which the government proposed again, and again as an additional defense program was introduced in the matter of shelters, ambulances and medical services, and fire protection. When the cost of the equipment was included, the Government assumed about 70 per cent of the whole expenditure, leaving 30 percent for local authorities to raise.<sup>4</sup>

<sup>2</sup> *Municipal Journal*, 1938, p. xxxii.

<sup>3</sup> *Parliamentary Debates*, Vol. 326, p. 3295 (July 28, 1937).

<sup>4</sup> *Municipal Journal*, 1937, p. 1549.

The local governments' reply was not long delayed and on July 28, 1937, when the Government announced a bill was in preparation, the plan was criticized. It was pointed out that certain areas by virtue of their industries or geographical location were more subject to air attack.<sup>5</sup> These industrial centers, producing for the benefit of the whole nation, would not only bear larger risks but would have to pay a larger share of air-raid precaution costs as well. If the Government's estimates of cost are exceeded, the grants are only 50 per cent of the local expenditure, and not 70 per cent, for the latter figure applies to the over-all cost of equipment and service as then estimated.

These criticisms resulted in a revision of the Government's basic plan which was announced on October 13, 1937. It accepted in part and denied in part the principal contentions of the local authorities but on the basic issue of whether air raid precaution should be a national or a shared cost the Government was adamant. To meet the whole charge from the Exchequer was objectionable because the level of expenditure depended on three factors: (1) national policy, (2) local schemes, and (3) local methods of administration.

The Government distinguished air raid precaution from the analogy of the armed services which the local governments had advanced.<sup>6</sup> Air raid precaution was distinctly a civilian and local service; in many ways it was not so much the imposition of new duties as an extension of existing services such as sanitation or fire protection. Or even admitting that air raid precaution was interlocked with the armed forces in a system of national defense, sharing of the cost was the only suitable check on local government.

It would mean depriving the local authorities of their indefeasible responsibility for the efficiency and economy of their local service, and would involve intervention by the central government in the sphere of local government to an extent which would impair the proper independence of local authorities in the weight of local affairs. It would be detrimental to efficiency and would, it is believed, be found unacceptable by the local authorities themselves.<sup>7</sup>

Certain costs of air raid precaution services to local authorities could be reduced by central procurement of material and

<sup>5</sup> *Ibid.*, p. 1593.

<sup>6</sup> *Ibid.*, p. 2398.

<sup>7</sup> *Ibid.*, p. 2113.



equipment. To that end, Parliament would provide all items such as fire-fighting appliances in excess of peace-time needs, stretchers, blankets, first-aid equipment, etc. But other services must be provided locally, such as structural precautions in buildings, public shelters, and the recruitment and training of volunteers for emergency fires, rescues or repair work. Expenditures on these latter services would be grant-aided and herein lay the primary concessions to local criticism. Instead of a flat 50 per cent it was provided that grants should be on a sliding scale to adjust the incidence to the needs and resources of the local authorities. Using the block-grant formula as a criterion of needs and resources, four categories were set up, each carrying a different rate of grant: 60, 65, 70, or 75 per cent. All local authorities were classified in one of these groups. While the Government anticipated the total burden on the rates of any one authority would not exceed the product of a penny rate, it proposed an additional grant of 75 per cent of all approved expenditures above a penny rate.

The final round in this bargaining process was reached on November 5, 1937, when the Government issued its "final offer" to the local associations which had that day submitted their objections to the grant proposals. The "final offer" increased the grant for approved expenditures in excess of a penny rate to 85 per cent for the two poorer groups, while keeping it at 75 per cent for local authorities in the other two categories. Thus it was thought that local governments least able to shoulder the air raid precaution burden would be safeguarded.

These provisions were finally incorporated into the Air Raid Precaution Act, 1937, and grants were authorized to counties and county boroughs on the following scale:<sup>8</sup>

Class	Ratio Weighted to Estimated Population (Block Grant Formula)	Expenditures Under Penny Rate	Expenditures Over Penny Rate
I	0.5 — 1.5	60%	75%
II	1.5 — 2.5	65%	75%
III	2.5 — 4.0	70%	85%
IV	Over 4.0	75%	85%

Each County Council would then make a grant in the same

<sup>8</sup> 1 & 2 Geo. VI, c. 6.

proportion to any districts within its jurisdiction. If the district's expenditure exceeded the product of a penny rate, the extra county district grant would be either 75 per cent or 85 per cent, depending on the proportion the county had received from the Exchequer.

The grants for London County Council and the metropolitan boroughs were somewhat higher, as the following data indicate:

Class	Ratio Weighted to Estimated Population	Expenditures Under Penny Rate	Expenditures Over Penny Rate
I	0 — 1.25	60%	75%
II	1.25 — 1.50	65%	75%
III	1.50 — 1.75	70%	85%
IV	Over 1.75	75%	85%

Needless to say, the local associations were still strongly opposed to the principle that air raid precaution costs should be shared. Their specific objections were: (1) the sliding scale still left from 15 to 40 per cent of the expenditures as a burden on local rates; (2) the block-grant formula had no relation to expenditure or "need" for air raid precaution; (3) it was an open end commitment for the local authorities in that no upper limit was set. On the last point the associations offered a counter proposal whereby the Exchequer would bear 90 per cent of all air raid precaution expenditure in excess of a penny rate, and 100 per cent in excess of a two penny rate. On the November 5 proposal as a whole they dissented unanimously on the ground that a national responsibility was being shunted on the rate, resulting in an unjust and inequitable burden.

The Government then pointed out since it would supply all air raid precaution materials and equipment, it was in fact meeting 90 per cent of the total cost of the program.

The Government feel strongly that no higher rate of Exchequer grant could be authorized toward the cost of local services without leaving the responsible local authorities with too small a financial interest to insure efficient and economical administration.<sup>9</sup>

The Government also set aside the fears that the air raid precaution cost would exceed a penny rate and estimated the average annual charge to local authorities well below £1,000,000 which would be below a penny rate.

<sup>9</sup> *Municipal Journal*, 1937, p. 2315.

It must be admitted, however, that local authorities had a point here. They were not concerned with the "average" expenditure on air raid precaution or any other service, as such a figure completely ignored the wide dispersion of rate burdens.

As evidence that such fears of highly unequal burdens were not unfounded, data can be introduced based on air raid precaution estimates for the year 1938-39. These estimates were made before the Munich crisis of September, 1938, so presumably they were comparable to those assumed by the Government in making its estimates six months previously at the close of 1937. For those county boroughs or County Councils that estimated their air raid precaution cost would be a penny in the pound or more, the following are selected:<sup>10</sup>

	Rate Poundage Levied		Estimated Cost In the Pound
HIGH POUNDAGES	1938-39		1938-39
Cardiff . . . . .	21s.	6d.	1.0d.
Barnsley . . . . .	18	8	1.4
Stoke on Trent . . . . .	18	0	1.0
MIDDLE POUNDAGES			
Bootle . . . . .	14	3	2.6
Norfolk . . . . .	15	0	2.0
Portsmouth . . . . .	11	6	2.3
LOW POUNDAGES			
Exeter . . . . .	9	8	1.0
Blackpool . . . . .	8	6	1.0
Darlington . . . . .	8	8	1.0

These examples illustrate the differential burden which said penny rate would have on some of the high rate authorities in contrast with some of the low rate authorities.

Having made its "final offer" the Government introduced a bill in Parliament on November 4 which was hurried into its second reading on November 16 and became law on November 22, 1937. The controversy, which ran for two years between the local authorities and the central government before the passage of the act, has been given in some detail, for it reveals a part of the legislative process uniquely British, for higgling and bargaining over a matter of grants-in-aid. But the end is not yet.

<sup>10</sup> *Municipal Yearbook*, 1939, pp. 697-712.

While the Act was passed over their opposition, the local authorities now carried their arguments to the administrative departments and another long series of adjustments was to be made. Gradually, as each new element of cost was dealt with by departmental circular, the Government widened the range of services that would either be reimbursed or rank for grant. The final outbreak of war simply accelerated this process.

Since Sections 7-10 of the Air Raid Precaution Act relating to Finance were phrased in rather general terms several conferences were held between the local associations and the new Air Raid Precautions Department of the central government. The general principle for sharing specific costs was then set as follows: new items of expenditure necessitated by ARP requirements would, if approved, rank for grant. These items had to be clearly discernible as new expenditures, attributable to ARP and no transfer of existing expenses, such as salaries for routine services of the local authority, could be made to the ARP account.

Through inspection and auditing of accounts, strict control was attempted to prevent a local authority from unloading excess personnel on the ARP account. Thus the salaries of any personnel, assigned or "seconded" from regular staff for civil defense work, would not rank for grant unless substitutes were hired in their place on the local authority staff. The wages and salaries of these substitutes could then be charged to the ARP account. There were instances where road maintenance men—regular employees of the authorities—were completely absorbed into civil defense work, yet their wages were not accepted for grant since substitutes had not been hired to do their old work on roads. The chagrin of local authorities at such control can well be imagined.

When the war started, the local associations continued to protest, now on the ground that the financial division of responsibility between central and local governments was not suited to actual war conditions. The central government gradually relaxed and enlarged the number of reimbursable items. Thus auxiliaries and former part-time volunteers were now required full time, and wages had to be paid accordingly. Such expenditures were reimbursed in full but not supplementary items such as cost of meals or sleeping arrangements which still fell upon the local authorities.

The period between the passage of the act in 1937 and the outbreak of war was marked by controversy, primarily over one substantial item: air raid shelters. It began on December 21, 1938, when the first plan was introduced in Parliament for private shelters of steel to be distributed without charge to the poor, as an estimated cost of £20,000,000, all to be borne by the central government. These were subsequently known as "Anderson" shelters after Sir John Anderson who happened to be Minister of Home Security when the plan was introduced. As the details were worked out and promulgated by the inevitable circular to the local authorities, such shelters would be free to any householders (a) compulsorily insured under the National Health Insurance Act, (b) earning less than £250 annually plus another £50 for each school child in excess of two.<sup>11</sup> For all other householders, private shelters were available at a price of £8 per unit.

The shelter policy of the Government was soon expanded to cover three types of need: (1) business places; (2) permanent homes, (3) public shelters for pedestrians.<sup>12</sup> The usual distinction between materials (Government responsibility) and services (local responsibility) was drawn.

Thus standardized materials for strengthening, shoring up, etc., of private basements were provided and delivered free of cost to the local authorities. The actual direct labor of installing such materials was to be provided by the local government and would rank for grant. The cost of any indirect labor such as *additional* staff work, fees to architects, etc., would also attract grant. Other incidental services such as sandbagging, and maintenance of shelters once erected would fall wholly on the local government.

It was felt desirable to expedite construction of shelters in the case of factories and commercial buildings required by law to shelter employees. To this end a grant of 35 per cent of the reasonable over-all cost was made if projects were approved before September 30, 1939, or in the case of new firms, in a reasonable time after notification that such shelters were necessary. Moreover, plants working on government war orders might require special provisions to ensure uninterrupted work,

<sup>11</sup> Air Raid Precaution Circular, No. 28, February, 1939.

<sup>12</sup> ARP Circular, No. 91, April, 1939.

for example, blackouts at night. For such costs grants were allowed based on the proportion of government to non-government orders being processed by said firm.

The outbreak of hostilities brought renewed pressure for additional shelter facilities. In April, 1940, the shortage of steel having stopped the manufacture of "Anderson" shelters, the Ministry of Home Security issued a circular which stated the price and amounts of reimbursement or grants applicable toward the cost of erection of brick and concrete shelters of a domestic type. These were subsequently known as "Morrisson" shelters. It also required that all "Anderson" shelters had to be erected by householders by June 11, 1940; otherwise the local authorities could do it, and their expenditure, if reasonable, would rank for grant. In September, of course, the blitz started and after five weeks of intensive raids, with rapid additions to shelter accommodations needed, the Government was sufficiently jarred to take a new view in this matter.

On October 1, 1940, as raiding continued, the first major concession was made whereby public protection was placed on the same basis as private shelters. This meant that costs of materials would be fully reimbursed, and costs of construction would rank for grant. Finally it was declared, October 19, 1940, that the *whole cost* to local authorities of constructing and equipping new public shelters would be reimbursed in full provided: (1) "reasonable" economy was practised, (2) the standards set by the Ministry were not altered, and (3) monthly returns were filed. This also included full payment by the Board of Education for the cost of those school shelters which would be available to the general public when not needed by the children. Thus a point which the local associations had been unable to gain in three to five years of controversy, was conceded after five weeks of enemy raiding, that is, complete responsibility of the central government for the cost of air raid shelters including material *and* services. The Government still clung to its insistence that incidental expenses be met by the local authority. Thus cleaning the shelters after use was up to the local government and full reimbursement would be made but only for the *extra* wage bill so incurred.

With this point finally established in their favor, the local associations at once pressed to have such reimbursement made

retroactive instead of applying it only to new shelters erected after October, 1940. The central government, however, was adamant and refused to make the full reimbursement retroactive. Their arguments were: (1) it would have cost the Exchequer an additional £9,000,000; (2) many local authorities were "hopelessly bankrupt" so this refund would have no permanent benefit; and (3) shelters were simply one phase of a much larger problem, that is, the ultimate adjustment of the cost of the war between central and local governments.<sup>13</sup> The local associations argued in vain that such action put a premium on sluggishness. Those energetic authorities who had taken prompt action at the Government's behest in 1938-40 were now penalized since the slow moving authorities could have their shelters built at no expense to themselves.<sup>14</sup> The Government on the contrary stated that its assumption of 100 per cent of costs was *not* a financial concession to the local associations but simply an administrative measure to speed up the provision of shelters.<sup>15</sup>

By the middle of 1942 the Government could report that 94 per cent of all planned shelter construction had been completed, including new types of deep tunnels and a new larger "Morrison" shelter made of steel for indoor use, accommodating twice the number of people.<sup>16</sup> The latter type was still being distributed in target areas, free to those householders with annual incomes under £350.<sup>17</sup>

The provision for air raid shelters and its financing is, of course, only one phase of the over-all effect of the ARP program upon local government. But it has been outlined in some detail for two reasons: in the first place costs bulked large among all civil defense expenditures in the early years of the war. In 1939-40, ARP expenditures by all local authorities amounted to £36.9 million or 71 per cent of their total outlay on civil defense. Similarly, for 1940-41, local ARP expenditure, grant and rate borne, aggregated £60.8 million though rising costs for evacuation and other civil defense items brought the pro-

<sup>13</sup> Home Security Circular, No. 212, p. 41.

<sup>14</sup> *Local Government Finance*, Vol. 45, No. 5 (May, 1941), p. 134.

<sup>15</sup> *Parliamentary Debates*, Vol. 302, p. 789 (July 30, 1942).

<sup>16</sup> *Ibid.*, Vol. 381, p. 499 (July 2, 1942).

<sup>17</sup> *Municipal Yearbook*, 1943, p. 407.

portion attributable to ARP down to 62 per cent. In the second place the shelter controversy provides an illuminating example of the collective bargaining method that the British employ in delimiting the exact areas of their central-local fiscal relations.

#### PERSONNEL OVERHEAD

But shelters are only one phase of ARP, albeit an expensive one. Attention may also be directed briefly to the matter of personnel and the problem of overhead administrative costs, another cause of anxiety to the local authorities. Instances have been noted above where the central ARP department regularly applied the principle that no regular employees of the local authorities could be shunted into civil defense work which would thus shift some of their wage load to the ARP account which attracted the grant. Such compensation was available only for additional personnel hired, either for direct work on ARP or as substitutes on the jobs of regular employees being transferred to civil defense. The outbreak of the war resulted in a great increase in personnel chargeable to civil defense, as those engaged on part-time or a volunteer basis were put on full-time duty. By 1941 the total wages and salaries of civil defense workers on a full-time basis amounted to £39.7 million of which £31.8 was attributable to ARP, the balance going to workers in medical and fire services. As manpower need became more acute in war industry and also as a measure of economy, the Government proposed in April, 1940, to reduce full-time staffs.<sup>18</sup> Popular pressure was also strong, for these were days before the blitz of September, 1940. People were unwilling to see large numbers of ARP workers "unproductively" employed, or so they regarded the teams of trained men whose only function seemed to be as "stand bys" in the event of attack.

Again in the spring of 1942, long after the blitz, the personnel was reduced by one-third for similar purposes of economy, thus releasing manpower for war industries. To enable the local authorities to keep up the efficiency of their ARP organizations compulsory service was authorized.<sup>19</sup>

<sup>18</sup> *Parliamentary Debates*, Vol. 360, p. 927 (May 2, 1940).

<sup>19</sup> *Municipal Yearbook*, 1943, p. 401.



The full-time salaries were admitted for grant, and additional bonuses for cost of living were allowed as of April 1, 1940, to administrative, clerical and technical employees on the ARP staff if (1) the local authority was already paying a similar bonus to its regular staff, and if (2) weekly remuneration was less than £5. Such bonuses, like salaries, were not reimbursed in full, but were included in the general ARP account, against which grants were made at the usual rates.

From time to time additional circulars were issued by the Ministry of Home Security authorizing other types of charges on accounts of ARP and civil defense workers. Thus superannuation contributions, cost of supervisory foremen, allowance for national insurance, holiday or sick pay, and accident leaves were included. For handling materials passing through the local authority depot, 4 to 5 per cent of the prime cost of such materials could be charged to the ARP account.<sup>20</sup>

However, local authorities were still dissatisfied with this procedure which required detailed analysis of expenditures, and even then did not cover the basic items of administration overhead in connection with civil defense work. As a result of continuing agitation by local associations, the position of the Government was modified in June, 1942, when the Ministry of Home Security issued a circular establishing a system of percentage allowances designed to cover administrative overhead.<sup>21</sup>

In lieu of detailed analysis of eligible expenditures by local authorities a flat percentage was applied to the total outlay on certain specific items of direct or basic civil defense expenditure. For 1940-41 it was to be 4 per cent and for 1941-42 and all succeeding years the "mark-up" was 5 per cent. While it was not intended to cover *all* wage, salary and office expense, it was believed that such an allowance would fairly represent supervision, office expense, and such items of overhead.

The situation was not quieted for long, however, as local authorities now discovered that 1941-42 was a peak year, £84.5 million having been expended on civil defense. Thus for the next year, direct expenditures on civil defense declined but the administrative overhead was increasing, both absolutely and relatively to the total cost of civil defense. Consequently the

<sup>20</sup> *Local Government Finance*, Vol. 47, No. 4 (April, 1943), p. 62.

<sup>21</sup> Home Secretary Circular, No. 124 (June, 1942).

local authorities argued that 5 per cent, a reasonable figure on the basis of 1941-42 costs, was not enough when applied to the smaller totals which they were then experiencing. After another campaign with the usual pressures exerted in the local associations, the Government relented and issued a new plan in 1944, retroactive to April 1, 1942.

The plan in effect reverted to the pre-1940 basis, before percentage grants were made specifically for overhead. It provided that the following categories would be acceptable for grants: <sup>22</sup>

1. *All* salaries of officers and employees on civil defense, the only exceptions being heads or deputy heads of local authority departments. Any part time duty would be prorated.
2. Rents and rates on premises wholly or partly used for civil defense.
3. Heat, light, stationery, etc. incurred for civil defense.
4. Any *reasonable expenses* in the administration of fire service or other civil defense.

This last item was indeed the omnibus that the local authorities desired, as they were no longer limited by a flat percentage.

### REVIEW ARP ACT

As noted above, the local government associations were overruled by the Government in establishing the per cent grant under the ARP of 1937. But Section 10 of the act called for a Parliamentary review of the financial provisions within four years of its passing which would be December, 1941. Circumstances at that time necessitated a postponement to the spring of 1942.<sup>23</sup>

Meanwhile the local associations had been girding themselves for another bout on the prime question of reimbursement for ARP expenditure. As early as April, 1940, a deputation of local authorities waited on the Minister of Health to propose (1) increased aid when the normal local services were impeded by reduced income; (2) provision for local government property in event of war damage; and (3) a reconsideration of the cost of civil defense services, for example, to review the scales

<sup>22</sup> *Municipal Yearbook*, 1945, p. 16.

<sup>23</sup> 4 & 5 Geo. VI, c. 10, *ARP (Postponement of Finance Investigation Act)*, 1941.

of grant in the 1937 Act, so as to shift the whole cost in war-time to the central government. On the first point, that a local authority should be reimbursed for a decline in rate income, the Government demurred. Its view was that, not knowing where it would stand financially at the end of the war, it could not accept the principle that the Government should contribute to ease the loss of revenue resulting from the war. It was felt that other public bodies, institutions, etc., might enter similar claims were the Government to underwrite local revenue. The second point, that the Government should assume full expenditure for war damage to local government property, was also declined. The policy would be to make no distinction between property of local authorities from that of ratepayers themselves. The local authorities were advised to await Government action on the whole question of war damage. On the third point—of major interest here—the Government reiterated the fact that they were assuming the full cost of civil defense personnel, of a large part of the equipment and of hiring premises or vehicles. On discretionary expenditures the ARP principles would be continued for it would be: "difficult for the central government to exercise the degree of control that we think necessary when the whole cost is being borne by the Exchequer."<sup>24</sup>

As the time for review drew near, the local associations instead of repeating the old controversy took another tack. This was the proposal to place some maximum on the portion of expenditures falling on local rates. Attention was again drawn to the inequity in areas where the rate poundage for civil defense and other war expenditures was larger than that borne by the majority of local authorities. It was proposed that a special grant of 50 per cent be made on the amount of approved expenditure that exceeds the produce of a 3*d.* rate. The scheme under the original act, it will be recalled, was to grant either 75 or 85 per cent of the expenditure in excess of a 1*d.* rate. The local associations were opposed because this left 15 or 25 per cent of an "unlimited" expenditure to fall upon the local budget. Hence a scheme was proposed that, after allowing for grants, if the civil defense burden left on local rates exceeded the product of a 3*d.* rate, additional grant of 50 per cent of this excess should be made.

<sup>24</sup> *Local Government Finance*, Vol. 44, No. 5, Supplement (May, 1940).

The Government acceded to the request for necessary additional aid but preferred that it be granted only if the excess civil defense burden exceeded a 6*d.* rate and then on two conditions: (1) the total rate must be higher than the average for the same class of area, and (2) the total rate must have increased by 6*d.* over 1939-40—the pre-war level. The choice of year was a concession to the local authorities since the Government had originally favored 1940-41 as a base year. The earlier year was certainly advisable since many rates had increased substantially in the two-year period. Some of the larger increases are noted below and are substantially due to the impact of civil defense costs.

## RATE INCREASES 1939-40 TO 1940-41

METROPOLITAN	s.	d.		s.	d.
City of London .....	10	10	to	12	0
Chelsea .....	11	8		13	4
Holborn .....	11	11		13	8
Kensington .....	11	4		14	2
St. Pancras .....	12	2		13	8
Westminster .....	10	6		12	8
COUNTY BOROUGHS					
Croydon .....	11	4		12	8
Derby .....	15	2		16	10
St. Yarmouth .....	15	8		18	9
Huddersfield .....	11	0		12	6
Manchester .....	16	3		17	4
Middleborough .....	14	0		14	4
Norwich .....	19	0		21	6
Sheffield .....	17	6		19	0
Southend on Sea .....	12	5		13	10
Wallasey .....	11	6		13	6

The White Paper that ensued incorporated these provisions and summarized the incidence of civil defense expenditure.<sup>25</sup> In effect, it pointed out there had been a continual review of these expenditures as a wider and wider area of financial responsibility was assumed by the central government in respect of shelter provision, personnel cost, administrative overhead, etc. For 1940-41 the proportion borne by the Exchequer varied from 81.6 per cent to 93.5 per cent with an average of 89 per

<sup>25</sup> *Report of the Result of the Investigation into the working of the Financial Provisions of the Air Raid Precautions Act, 1937*, Cmd. 6456.

cent. Then, too, substantial savings such as the transfer of the Fire Brigades to the national budget are not even included in these figures. To continue the White Paper summary, the average burden on rates in 1940-41 was about 3*d.* for regular expenditure and  $\frac{1}{2}$ *d.* for loan charges on capital expenditures in previous years. The civil defense burden exceeded 6*d.* in only about 10 per cent of the local authorities and since the average total rate poundage was 13*s.* 10 $\frac{1}{2}$ *d.*, it contributed a small proportion of the cost of local services as a whole. Comparing the actual data for 1940-41, the civil defense expenditures falling on rates amounted to £11,318,000 or approximately 5 per cent of the total rate and grant-borne expenditure of £238,257,000.<sup>26</sup> It must be noted, of course, that such over-all data conceal the wide variations of burden, and that many local authorities had little or no outlay for civil defense due to geographical or other considerations, while some authorities had expenditures which bulked large in their budgets. It was on behalf of this latter class particularly that local associations pressed for a supplementary grant on the excess over a 3*d.* rate instead of the 6*d.* rate which the Government finally insisted upon.

The Government decision was strongly criticized by local administrations on the quantitative ground that straight comparisons in rate poundage had long been discarded as unreliable. The second criticism, on a qualitative ground, was that the amount of relief afforded by this adjustment was too small. In all, only sixteen county boroughs would get an aggregate of £100,000 for the year 1941-42; in the area of the London County Council—where civil defense costs were among the highest—the supplementary grant could not exceed the equivalent of a  $\frac{1}{2}$ *d.* rate.<sup>27</sup> Finally to the Government's observation that 90 per cent of the civil defense cost was already paid by the Exchequer, the local authorities replied: why not the small balance too? Evidently the mere size of a civil defense outlay does not determine whether it is to be a national or local charge, and attention is drawn to items such as war-time nurseries where total cost is very small, yet fully reimbursed. They still held to their oft repeated position that civil defense—especially in war

<sup>26</sup> *Municipal Yearbook*, 1945, p. 27.

<sup>27</sup> *Local Government Finance*, Vol. 46, No. 7 (July, 1942), p. 140.

time—was a national charge. It would have been better, so they argued, had the Government assumed the full costs in 1939 and thus avoided the administrative potpourri which arose from distinguishing expenditures by grant earning, non-grant earning or reimbursable claims to say nothing of Supplementary grants and other allowances. The wide range of grants and the diverse conditions under which different items of expenditures were treated can be seen from the compilation in Appendix F.

Apart from the Supplementary grant to aid burdened authorities, the White Paper made other formal concessions. These included items such as: a percentage addition to direct expenditure for the cost of administration, which has already been noted; the charge made by authorities for the hire of their own trucks used in civil defense, such charges rating for grant; payment of local workmen while engaged on civil defense; the cost of auditing civil defense expenditures became eligible for grant; and the cost of hiring pumps changed from a grant aided to a reimbursable basis. Moreover, since negotiations were originally started in April, 1940, the Government set April 1, 1940, as the effective date for the changes.

These concessions follow the same pattern noted earlier whereby the central government gradually retreated from its initial position under the impact of changing war conditions and pressure from local associations. Their civil defense expenditures, once not eligible for grant (Phase 1), would in time be accepted for grant (Phase 2), until eventually more and more items would be reimbursed in full (Phase 3). The retroactive feature might be considered a fourth phase in the pattern which the Government introduced when it became evident that earlier regulations had been too stringent.

On this phase it is interesting to note that the Government now relaxed its opposition to the local authorities' view that shelter costs should be a national charge. In debates in the House of Commons it was stressed that the shelter grant in October, 1940, was raised to 100 per cent entirely for purposes of administrative speed and was not to be construed as a financial concession. Consequently local attempts to make it retroactive were unavailing.

## OTHER MAJOR CIVIL DEFENSE SERVICES

Air raid precautions, with all of its interlocking of central and local finance, was by no means the only war service which imposed administrative and/or financial burdens upon the local authorities. While ARP has been treated in some detail because of the light it throws upon the higgling and bargaining process in central-local relations, other local war-time services may be considered briefly to indicate the cumulative load upon local governments.

The Emergency Powers (Defense) Act, 1939,<sup>28</sup> together with the Civil Defense Act, 1939,<sup>29</sup> provided the basic statutory authority for many of the local war services. In general the Civil Defense Act was administrative rather than financial and conferred powers and assigned responsibilities with respect to such items as public and private shelters, training volunteers and other personnel, public utility undertakings, darkening of lights and camouflage, and drives, etc. It contained no general provision for compensation, grants, or other financial details which would be relevant to the immediate problems. The financial provisions of the ARP Act, already discussed in some detail and Defense (Finance) Regulations, 1939,<sup>30</sup> set the general pattern for local war finance.

*Fire Brigades*

In peacetime fire protection is one of the services which falls traditionally in the domain of local government and the cost thereof has been strictly a local charge. Grants from the Exchequer, for maintenance of the service, were virtually nil, totaling 13,000 or 14,000 pounds annually for all local authorities in England and Wales in the immediate pre-war years 1935-36 to 1938-39; this was about one-half of one per cent of the cost.

The Fire Brigade Act, 1938,<sup>31</sup> was passed about a month before the Munich crisis in an attempt to build up the equipment and operating efficiency of the nation's fire brigades.

<sup>28</sup> 2 & 3 Geo. VI, c. 62.

<sup>29</sup> *Ibid.*, c. 31.

<sup>30</sup> Defense (Finance) Regulations, *Statutory Rules & Orders*, No. 1620, 1939.

<sup>31</sup> 1 & 2 Geo. VI, c. 72, Fire Brigade Act, 1938.

While full control and responsibility for operating costs were left with the local authorities, provisions were set up for Exchequer grants to defray some of these costs. All equipment approved or required for local schemes would be supplied to the local authorities without cost; whereas all other approved expenditures would be shared on the same basis as ARP outlays. The act further provided for an Auxiliary Fire Service (AFS) with the local authorities responsible for (1) recruiting and training volunteers, and (2) storing and maintaining appliances. It was recognized that additional personnel would be required to carry out these functions and the cost thereof would rank for grant, provided the increase was not more than 10 per cent of the full-time strength of the local brigade.

Subsequently the AFS was organized on a regional basis, the regional boundaries being the same as for ARP and civil defense in general.<sup>32</sup> There were eleven regions in England and Wales (excluding London) which cut across county boundaries, and the local brigades were organized for mutual assistance. For this purpose the regions were subdivided into five to seven districts depending on the size and character of the region. Meanwhile, expenditures continued to be shared on the same basis as civil defense.

The final step came in 1941 after the blitz experience when the fire brigades were nationalized. The Fire Services (Emergency Provisions) Act, 1941, combined the 1,400 local brigades into a unified service under the Home Secretary.<sup>33</sup> The entire cost was then a national charge upon the Exchequer as of July 1, 1941. But local authorities were not allowed to pocket the windfall "savings" thus achieved, which would have amounted to £3.3 million, their rate burden expenditures in the year 1940-41. The act required them to contribute in equal quarterly payments 75 per cent of their fire brigade cost in the standard year (1939-40) or, if a local authority had no service of its own, an amount equal to the product of a 2*d.* rate. Since total rate-borne expenditures of fire brigades in 1939-40 were £3.0 million, the local authorities "saved" about one-fourth of that amount.

Control of the National Fire Service, as it was now called,

<sup>32</sup> Fire Brigade *Circular* No. 4, 1939.

<sup>33</sup> 4 & 5 Geo. VI, c. 22.



was removed from the local authorities though they continued to act as agencies of the central department in certain matters, for example, payroll, medical attention, stores and maintenance. It was expected that the local governments would employ the same supervision and economy as though the expenditures were from its own account in carrying out these minor functions. The cost including administrative expense incurred, while not absolutely guaranteed, would (after central scrutiny) be reimbursed in full.<sup>24</sup> Eventually it was planned that even these few functions would be completely assumed by the NFS.

Needless to say, this nationalization of a time-honored local service was achieved only over the strenuous protests of local associations, the details of which are not relevant here. In general, the local authorities felt they had done a good job through the 1940 blitz and that no substantial need existed for nationalization. On the other hand, numerous anomalies had existed under the Auxiliary System. Those discrepancies were in finance, where the cost of some vehicles was reimbursed while others only attracted grant; and in service, where fire brigades in districts not under attack were slow in arriving, or having arrived, were not adequately utilized by the harassed chief in the local area. As a consequence, during 1942 the local authorities were understandably critical of the conduct of the NFS. It was charged first with extravagant expenditures on administration and training, and second with maintaining excessive full-time personnel of which too small a number were experienced men. The central department justified its policy on the ground that a national service had to maintain stand-by forces which might be larger than the immediate local area required for itself. On the matter of training, it was felt there had been too little training before and the central department meant to correct that deficiency in the light of experience gained thus far.

Most of all, the local authorities worried about the postwar prospects and the specter of the fire service being kept as a permanent national service on some regional basis. Continual prodding on their part finally culminated in a conference in June, 1945, between the local associations and the Home

<sup>24</sup> National Fire Service *Circular* No. 16, 1941.

Office.<sup>85</sup> There it was agreed that the Government would not ask for a retention of the NFS as then constituted. The framework of the 1938 Fire Brigade Act would be followed and the fire brigades returned to local control, subject, however, to three conditions: (1) Home Office supervision regarding standards of efficiency; (2) the provision of services appropriate to the risks in each area; and (3) the maintenance of mobility so that resources would be used to the best advantage regardless of local boundaries.

The net cost to local government of civil defense fire protection in the war years before the organization of the NFS may be noted.

	1939-40	1940-41
Fire Precaution .....	£9,656,000	£18,016,000
Less:		
Grants .....	£8,452,000	£16,122,000
Fees .....	13,000	70,000
	<u>£8,465,000</u>	<u>£16,192,000</u>
Balance on Rates.....	£1,191,000	£ 1,824,000
Percentage civil defense falling on rates .....	12%	16%

But in addition to these items classified as "Civil Defense," the burden on local governments for Fire Brigades after deducting grants and fees has been increasing steadily since the 1938 Act.

	Expenditures Falling on Rates
1937-38.....	£2,685,000
1938-39.....	2,796,000
1939-40.....	3,056,000
1940-41.....	3,374,000

In these four years, the net burden increased 25 per cent and will undoubtedly be raised even higher when the service is finally returned to local control.

### *Evacuation*

One of the principal problems plaguing local governments during the war period was the evacuation of population, primarily children, from metropolitan London and other target

<sup>85</sup> *Local Government Chronicle*, No. 4099 (July 7, 1945), p. 433.

areas. As early as 1938 preliminary plans were laid and the financial policy was formulated along the following lines:

1. School children: Exchequer to bear whole cost of evacuation and maintenance.
2. Other refugees: Exchequer to bear initial cost of transport, rations, and accommodations.
3. When evacuation completed, able persons would be required to contribute to their own support.

The Civil Defense Act, 1939 (Paragraph 56), authorized grants for the entire expense incurred by the local authorities who were at all times acting as agents of the central government. Areas were subsequently classified into (1) Receiving, (2) Neutral, and (3) Evacuating. Since much of the strain due to evacuation would fall on educational facilities in the receiving authority, the Exchequer, through the central Board of Education, was to reimburse the full amount of such items as the following: <sup>36 37</sup>

1. ARP where additional provision was required solely for the evacuated children.
2. The hiring of premises to supplement ordinary school facilities and expenses of conveying children to school.
3. Other educational expenditures which would not have been incurred by the sending authority, had no evacuation taken place.

All other expenditures by the receiving authorities would be charged to the educational account of the sending authority which gets the usual grants for such educational purposes. Thus the general principle that no expense for evacuation should fall on the receiving authorities was adopted, and further that all additional expenditures would either be paid in full by the central government or be shifted to the evacuating authority.

A fairly elaborate system of contributions was installed which the local authorities in the sending area were expected to assess and collect on behalf of the Exchequer. For such administrative services they were to be reimbursed by the central department—in this case the Ministry of Health.

It was costing the Government, on the average, 9s. weekly

<sup>36</sup> *Local Government Finance*, Vol. 44, No. 1 (January, 1940), p. 5.

<sup>37</sup> Board of Education, *Circular* 1481, 1939.

per child which was raised in early 1940 to 10s. 6d. payable to householders billeting the school children. In 1939 plans had been laid for 2,300,00 children to be evacuated, but despite Government urging at the outbreak of war less than 50 per cent of these children were permitted by their parents to leave home.

The contributing scheme was graduated according to means. If able, parents were expected to pay the full amount of the billeting charge; otherwise the "standard" was set at 6s. weekly but, if still unable to pay, the amount was reduced after application of the "means" test by the sending authority. Briefly, the assessment procedure was (1) to ascertain net income, (2) deduct rent and a personal allowance for each member of the household not evacuated, and then (3) to consider one half of the balance available for payment. These "personal allowances" were 25s. weekly for father and mother jointly, 15s. for a single parent, 10s. for dependent adults over 16 years old and 6s. for dependent children under 16 years.<sup>88</sup> As it later developed, this scheme was one of the deterrents to evacuation, many families seeking to avoid such levies by keeping their children at home, target area or no. In May, 1942, billeting allowances were again increased to vary from 10s. 6d. for "under fives" to 16s. 6d. for age 17 and over. In the year 1941-42 £1,900,00 was collected from parents which amounted to an average of 2s. per child weekly. The balance of the weekly cost, 8s. 6d., was finally borne by the Exchequer.

Receiving areas also had the problem of extending public health services to the evacuated school children and others. The sending authority was urged to release medical personnel to the receiving areas, meanwhile paying their wages from its own budget. In the absence of such releases, the Ministry of Health would reimburse the receiving areas for the cost of additional staff.

Apart from the usual differences between the local authority and the central departments over what constituted "additional" expenditure, said amount to be paid by the Exchequer, it appears that the principle of "no cost" to receiving areas was fairly well maintained. Of total civil defense expenditures by

<sup>88</sup> *Municipal Yearbook*, 1940, p. 414.

local authorities in England and Wales classified as "Evacuation," the Exchequer bore the lion's share.<sup>30</sup>

	1939-40		1940-41	
Evacuation Expense .....	£1,841,000		£4,345,000	
Grants .....	£1,710,000		£4,036,000	
Fees .....	98,000	1,808,000	245,000	4,281,000
Balance on Rates .....	£ 32,000		£ 64,000	
Percentage of civil defense cost falling on rates .....	.3%		.6%	

### *Hospitals*

The provision for medical services and emergency hospitals in particular was another item for which central-local financial adjustments had to be made. In peacetime the central government administered no hospitals except a few concerned with casualties of World War I. Hospitals otherwise were either voluntary, operated privately; or municipal, owned and operated by the local authority as a part of its institutional health service.

Bed capacity, surgical and other facilities for emergency use in the event of air-raid casualties were often inadequate in target areas. To correct this situation, the Civil Defense Act, 1939, was again the basic directive and divided the financial responsibility for "upgrading" hospitals. Thus institutions not equipped in peacetime for surgical work and casualty treatment would be fitted up. The actual equipment would be procured by the central government while the local authority would handle the storage of such materials and reserve supplies. Aside from equipment, three-tenths of the "upgrading" cost would be charged to the local authority which would also be responsible for ARP works for the protection of patients on the usual grant basis.

To avoid excessive burden, however, it was provided that the local share of upgrading should not exceed an amount equal to one-tenth of a penny rate in any one year. Any approved expenditures over and above this maximum would be reimbursed in full by the Government.

With respect to casualties, the Government assumed full

<sup>30</sup> *Ibid.*, 1944, p. 41.

cost of treatment by hospitals, but the local authorities were responsible for ambulance or other services to transport victims to the hospital. The cost of this delivery service was grant-aided, under the usual ARP provisions.

The net cost of the emergency hospital services to the local authorities in England and Wales, while somewhat larger than evacuation costs, was kept down to a nominal figure by the above provision for maximum burden.

	1939-40	1940-41
Emergency Hospitals .....	£3,200,000	£8,191,000
Grants .....	£2,646,000	£7,440,000
Fees .....	35,000 2,681,000	147,000 7,587,000
Balance on Rates .....	£ 519,000	£ 604,000
Percentage of civil defense cost falling on rates .....	.5%	.5%

### *Housing*

The net cost to local authorities of wartime construction is commingled with the over-all expenditures on "Housing" in general and cannot be separated from the data currently available. It may be noted, however, that as in the case of hospitals, the provision of housing in peacetime was entirely a private affair or the concern of local authorities, and grant-aided in the case of slum clearance, relief of over-crowding, etc. At the outset of the war, building was expanding but it soon stopped as materials were controlled and the risk of war damage discouraged new construction.

Local responsibility for war housing first appeared in areas of war-plant location and new schemes were initiated to meet such needs. In order to qualify for grant, however, they had to be constructed with a view to postwar usage, meanwhile being used by munition workers under agreement between the local authority and the central department. As the redistribution of population continued, acute shortages developed, and the central government through the Ministry of Supply assumed the responsibility for constructing hostels and quarters for married workers. In some cases these new facilities were managed by hostel corporations formed for that purpose and the occupants were charged rent in accordance with the rent level in that community. In most cases, however, the local

authorities were requested to take over the management, collect rents, and handle necessary repairs.<sup>40</sup>

Since administrative costs incurred were reimbursed by the central department it may be presumed that war housing, in general, did not add much to the actual burden on local rates. It did, of course, add one more responsibility to the work load of harassed personnel of the local authorities trying to carry on a host of widely expanded wartime functions.

### *British Restaurants*

One of the inevitable by-products of evacuation and of air attacks was the responsibility for feeding large numbers of people. This responsibility fell entirely upon the local authority. By December, 1942, over two thousand communal feeding centers were established throughout the areas of need and 96 per cent were operated by the local authorities. These community kitchens came, euphemistically, to be called "British Restaurants," and again the financial burden was shared by the central and local governments.

Under Defense (General) Regulations, 1939, as the basic directive, local authorities were empowered to establish and operate these "restaurants" under the general supervision of the Ministry of Food.<sup>41</sup> Under the original plan, losses in operation would be reimbursed by the Ministry which also absorbed most of the profits reported by the others. The procedure in calculating profits—or losses—may be noted briefly. After amortizing the full cost of capital equipment (including that furnished by the Ministry of Food) and repaying to the Ministry any "unavoidable" losses which had been reimbursed in earlier periods of operations, any profits would be disposed of under one of two plans. Either the profits would be divided equally between central and local governments, or the local authority could acquire the assets by paying 3 per cent interest annually on the equipment and capital advances less amounts already paid back. When the cost was fully amortized the "restaurant" became the property of the local authorities.<sup>42</sup>

<sup>40</sup> *Local Government Finance*, Vol. 46, No. 1 (January, 1942), p. 6.

<sup>41</sup> Local Authorities (Community Kitchens and Sale of Food in Public Air Raid Shelters) Order, 1941, No. 103, *Statutory Rules & Orders*, 1941.

<sup>42</sup> Ministry of Finance, *Circular No. 15*, November, 1940.

For the most part, local authorities chose to act as agents for the Ministry, accepting reimbursement for any capital expenditures and "unavoidable" losses. As has been noted before, every joint project seems to have involved a certain amount of bargaining and adjustment in terms; the community kitchens were no exception. The most common protest was that the Ministry of Food did not pay a large enough proportion of ordinary losses in contrast with "unavoidable" losses which were reimbursed in full. The latter category included losses outside the control of the local authority such as restaurants established in areas which later experience proved unsuitable, or from a reduced demand due to expansion of workers' centers or an exodus of population from the area.<sup>43</sup> In general, the Government's reply to the continuous stream of protests on ordinary operating losses was advice to raise the price of meals<sup>44</sup> and conversely, to lower prices when profits were produced.

As the war drew to a close in 1945 pressure from private restaurants coupled with a desire on the part of local authorities to slough off as many of these emergency duties as possible, made the gradual closing of these feeding centers inevitable. Moreover, the blanket license to operate such establishments would lapse with the expiration of the Emergency Powers Act, 1939.

No separate data are available on the net burden to local authorities of these community kitchens. These costs were evidently lumped in the "all other" category in the classification of local civil defense expenditures. As may be seen below, the "all other" class represented only 2 to 4 per cent of the total civil defense burden falling on local rates.

	1939-40	1940-41
"All other" .....	£786,000	£6,040,000
Grants .....	£527,000	£5,231,000
Fees .....	£ 68,000	595,000
		361,000
Balance on Rates .....	£191,000	£ 448,000
Percentage civil defense falling on rates .....	2%	4%

<sup>43</sup> *Municipal Yearbook*, 1944, p. 430.

<sup>44</sup> *Parliamentary Debates*, Vol. 388, p. 503 (April 6, 1943).



## REVIEW OF CIVIL DEFENSE EXPENDITURE

In 1941, the Select Committee on National Expenditure reported to Parliament the results of its survey of the whole civil defense program as it existed at the close of the year 1940-41.<sup>45</sup> In the year then concluded the Exchequer spent a total of £89 million for civil defense, including air raid shelters but excluding administrative costs. Of this amount £39.75 million went to pay 250,000 whole-time workers. Thus the principal object of investigation was twofold: first, to find possible ways of reducing these heavy manpower requirements which also would reduce the financial burden; and second, of course, to scrutinize the efficiency of the expenditures made so far.

With respect to manpower to be released for war industries, the Select Committee recommended:

1. Reduce the numbers when experience shows an ample supply, for example, Casualty Services.
2. Substitute part-time volunteers for whole time paid workers. Utilize National Service Statutes and Regulations which permit the drafting of personnel when volunteers are not adequate, for example, the limit of 20% paid air raid wardens was permissive only, and could be reduced by using "volunteers."
3. Allocate personnel to time of greatest need, for example, if raids are primarily at night, reduce the day-time staff.
4. Increase mobility of fire brigades, etc. between areas and regions, and allow more than one third of the original force to be shunted to the attacked area.

With respect to the efficiency of defense expenditures already incurred, the Select Committee was rather critical. Upgrading of hospitals, though a lesser cost, was often done without regard to possible postwar uses in locations where an alternative was possible. On the matter of shelters, one of the largest items of cost, the Committee went into detail.

The popular demand for deep tunnels had served to stampede the government into excessive outlays. Deep tunnels cost £15 per occupant in contrast with ordinary shelter types at £4.<sup>46</sup> In the metropolitan area, deep tunnels were constructed without much regard for possible future uses as part of the subway

<sup>45</sup> Select Committee on National Expenditure, *28th Report*, Session, 1940-41.

<sup>46</sup> *Ibid.*, p. 27.

system; they consumed enormous quantities of labor, equipment and materials sorely needed in war industries; while they afforded a high degree of protection, they violated the principle of dispersion, raised health hazards and prevented fire-watching duties. After consideration, it was recommended that no more deep tunnels be attempted and that those already completed be reserved for mothers and children, the aged and people working long hours on projects of high national importance.

Ordinary shelter policy was also criticized.<sup>47</sup> The delays in construction prior to October 1940 were attributed largely to differences of opinion between administrative counties and their county districts on the incidence of the rate-borne share of shelter expenditures, that is, after grants had been paid. The Government was at fault for not enforcing its policy on the dilatory local authorities. This resulted in severe injustice to those authorities that had provided their protection before the Exchequer shouldered the entire cost in October, 1940. On the latter point, namely the controversy over the division of shelter cost, the committee conceded some small justification on the grounds of expediency for assuming the entire cost. But this was only because of circumstances precipitated by the blitz and was contrary to all financial principle. Moreover, since that crisis had now passed, the committee recommended a return to the former basis of shared cost which would give the local authority some incentive to efficient expenditures. Parliament apparently never acted on this last point, perhaps fearful of the storm which local associations would raise. Having once succeeded in shifting the entire cost to the Exchequer, it created a "vested interest" in favor of keeping it there.

A review of civil defense in open debate in the House of Commons in June, 1943, was little concerned with the financial aspects. Most of the criticisms then were on administrative and organizational matters. There was a wide dispersion of responsibility whereby fifteen separate Ministries had some civil defense function; the application of the provisions in the large number of circulars continually being issued threatened to overwhelm local authorities. One Ministry alone—Home Security—issued 348 circulars in 1939, 308 in 1940, 297 in 1941 and 260 in 1942. On the other hand, the consensus was that the

<sup>47</sup> *Ibid.*, p. 25.

regional civil defense organization had proved itself in times of heavy raiding and minimized the outflow of circulars from Whitehall. The financial discussion was largely on small matters of detail—such as allowing local authorities to spend up to £100 without regional approval.

#### OVER-ALL FINANCIAL EFFECT ON LOCAL GOVERNMENT

##### *Rateable Value and Rate Income*

The immediate impact of the war on local government finance may best be observed through changes in rateable value, losses in rate income, and the emergence of "distressed" areas which required special aid from the Exchequer. The problems of rating in wartime were first met in conjunction with the ARP Act, 1937, as local governments and private concerns prepared schemes for new shelter construction or modification of existing structures for air raid protection. The Rating and Valuation (Air Raid Works) Act, 1938,<sup>48</sup> was enacted to exclude all ARP works from rates. This exemption was further strengthened by a provision in Section 69 of omnibus Civil Defense Act, 1939, which states that installation of air raid shelters was not to increase the valuation of property for rating purposes.

As soon as the war broke out a host of questions arose. Firms and individuals plied their respective local authorities with requests for reduced assessments or partial or complete remission of rates. A reduction in shop assessments was requested on the grounds of reduced turnover and the closing of upper floors. In reply, local authorities declared that a lower turnover did not necessarily lower profits; in some cases rateable value had actually increased due to the demand for premises to replace those damaged by air attacks. Without evidence as to a general lowering of values hardship allowances could be granted but only in specific cases. Mills which had previously been operating but were now "cleared" and used wholly or partly by the central government would not have their valuation reduced but the central department would make a contribution in lieu of rates. Advertising companies, especially bill posters, with a loss in revenue might have their valuations reduced accordingly, but the rate levied would not be changed.

<sup>48</sup> 1 & 2 Geo. VI, c. 65.

In general, three alternatives were available: (1) reduced valuation, (2) remission of partial liability through the use of allowances, and (3) total remission in which case it was referred to the Justices for decision.

As a result of wide variations in interpretation by local authorities, it was not long before the central government issued uniform directives. Thus, in the case of war damage, adjustments might take two forms: if premises are totally demolished, valuation will be amended, or if partially demolished remission of rates will be the relief.<sup>49</sup> Retaining partially damaged property at full value was criticized as masking the true property destruction; moreover it made difficult the calculation of rate losses for which local authorities hoped to be reimbursed by the Exchequer.<sup>50</sup> Where losses in property income were the result of location in an evacuation area, a moratorium was granted, though the liability still remained; but where the loss was due to enemy action, the rates were written off.

The cumulative effect of these changes in rateable value may be noted by comparing total valuations in England and Wales for April 1, 1939, the last pre-war assessment, and those for April 1, 1944, the latest available year.

	1939-40	1944-45
62 Administrative Counties....	£218,037,000	£218,977,000
83 County Boroughs.....	100,797,000	100,116,000
Total .....	£318,834,000	£319,093,000

Evidently the administrative counties increased their rateable value substantially, London being the only such county experiencing a decline over this period. London dropped 13 per cent from £63,121,000 to £54,986,000.

The county boroughs, on the other hand, suffered most of the losses in rateable value, which might be expected, as many large cities were frequent targets for enemy raiding. Even so, of the eighty-three county boroughs, forty-nine increased, eight had little or no change, and twenty-six decreased in rateable value. The severity of the decreases, largely due to evacuation

<sup>49</sup> Ministry Of Health, *Circular No. 2215*, 1940.

<sup>50</sup> *Local Government Finance*, Vol. 45, No. 1 (January, 1941), p. 17.

or direct enemy action, may be noted by the following distributions:

Decreases 1939-44	No. of County Boroughs
1 to 5%	14
6 to 10%	7
11 to 15%	4
16 to 20%	1

The county boroughs with 10 per cent or more loss in rateable value were: Plymouth 17 per cent, West Ham 14 per cent, Portsmouth 13 per cent, Southampton 13 per cent, Bootle 11 per cent, Canterbury 10 per cent and Kingston on Hull 10 per cent. With the exception of Canterbury, these cities were included among the fifteen "distressed" county boroughs that received financial aid from the Exchequer<sup>51</sup> for the maintenance of essential services. The variation through the war years for all local governments in England and Wales is set forth below (as of April 1):<sup>52</sup>

1939. ....	£318,834,000
1940. ....	324,271,000
1941. ....	322,495,000
1942. ....	317,802,000
1943. ....	317,274,000
1944. ....	319,093,000

Among the wide powers given to the Ministry of Health by Defense Regulations was the authority to permit local borrowing regardless of other acts or restrictions which usually hedged the borrowing privilege.<sup>53</sup> The Ministry was also empowered to intervene in the matter of "precepts" which administrative County Councils might bring upon the rating authorities—non-county boroughs, urban and rural districts—within its boundaries. In normal times a precept is based upon the estimated product of a penny rate, but during war years increasing disparity appeared between the estimated product and the amount actually collected. This might be due either to a lag in collection because of individual distress or evacuation, or to a reduction in receipts where the source of income had

<sup>51</sup> Below, p. 124.

<sup>52</sup> Ministry of Health, *Rates and Rateable Value in England and Wales, 1944-45*, p. 54.

<sup>53</sup> Defense Regulations 54 B A No. 1885, S. R. & O., October, 1940.

been destroyed. The various districts within a county were thus faced with the problem of paying a precept—based on estimated yields—with funds which fell far short of the estimate. To meet this situation the Ministry of Health allowed some rating authorities to reduce the amount payable under precept to the county council by paying the same proportion of cash collected as the precept bears to the rate poundage. Thus they were not required to turn over cash not actually collected.<sup>54</sup>

The second step in relief of rating authorities authorized by Defense Regulations was to vary the manner of estimating the product of a penny rate for purposes of precept. The ARP Act, for example, set up its calculations of rate product on the amount collected, rather than the amount collectible. Why not, argued the local associations, put precepts on the same cash basis? <sup>55</sup> The County Council would be short, but a deficiency Exchequer grant might be initiated to cover such situations. This plan the Ministry of Health declined and established the policy that no change in the precept basis would be allowed unless revenue fell so low as to threaten essential services. The problem thus became one of assisting distressed areas, and special procedures, noted below, were set up to handle such cases.

Having been balked on the point, the local associations waited upon the Chancellor of the Exchequer in the middle of 1941 and proposed deficiency grants to compensate for losses in the local income arising from war causes. The Government's negative answer covered these points: <sup>56</sup>

1. The unpredictable financial condition of the whole nation prohibited blanket compensations.
2. No compensation for loss of income could be made unless it was done generally, that is, to other organizations penalized by the war, and such would be an unmanageable task.
3. The guiding principle must be to treat distress from income loss as a matter of *assistance* with regard to need, rather than a subject for compensation.

The local authorities protested that rates should not be looked upon as "income" but rather as taxation to meet ex-

<sup>54</sup> *Local Government Finance*, Vol. 45, No. 5 (May, 1941), p. 125.

<sup>55</sup> *Ibid.*, No. 2 (February, 1941), p. 43.

<sup>56</sup> *Local Government Finance*, Vol. 45, No. 9 (September, 1941), p. 257.

penditures. The Exchequer incorrectly assumed that revenues were the same as the income of a person or institution; on the contrary, so they argued, certain classes of "income" should be made good in the national interest.

In evaluating this controversy, as well as others already noted, attention must always be focused upon the over-all picture of war finance and the proportion of the war cost shared by central and local governments. The local associations, in their commendable zeal to maintain services, have taken a rather limited view of the total situation. It was one thing to argue that civil defense was properly a national charge; it was quite another to claim local revenues should be underwritten in some blanket fashion by the Exchequer. Why indeed, should all local services be maintained in a time of national crisis? Yet had the central government acceded in this point, a substantial share of normal local services would have been shifted to the Exchequer which was already paying better than 90 per cent of the *abnormal* services—and that was before the shelter responsibility was shifted *in toto*. Moreover experience shows that once a local burden is attached to the Exchequer it tends to stick there, and an embarrassing situation would surely have arisen at the war's end, when the time inevitably came for local authorities to stand on their own feet again.

### *Rate Poundages Levied*

The extent of wartime fluctuations in rates levied by local authorities may be noted below. County boroughs stand as units but administrative counties are not rating authorities *per se*. County revenues are raised by "precepts" upon the non-county boroughs, urban and rural districts in its jurisdiction. However the purpose it had did not require the enormous amount of detail which would have been involved by a breakdown of eighty-three administrative counties into their constituent rating areas. The "estimated equivalent" is therefore used as indicative of the general level of rates in any given county. This equivalent is the uniform rate poundage over the whole county of all local rates levied within the county. In other words, what rate, if levied over the entire county, would produce a sum equal to the rate products of the separate rating authorities? It is an average rate and, like all averages,

conceals the dispersion of rate poundage within the area of the county.

For England and Wales the average rate poundage collected during the war increased from 12s. 3.75d. in the last pre-war year, 1938-39 to 12s. 8d. in 1944-45. As noted below the total valuation on which these rates were levied was approximately the same at the beginning and end of the period, for example £319.1 million in 1944 against £318.8 million in 1939. Some variation in yields occurred during the middle of the war period although these Ministry of Health figures are only provisional for the last four years.<sup>67</sup>

	Total Rate Receipts £	Rateable Value £	Average Rate per £	
			s.	d.
1938-39			12	3.75
1939-40	201.3	318.8	12	7.5
1940-41	203.9	323.3	12	7
1941-42	194.0	322.5	12	0
1942-43	196.0	317.8	12	4
1943-44	199.0	317.3	12	7
1944-45	202.0	319.1	12	8

Thus it appears that for England and Wales as a whole, local revenues, after a mild war slump, had about recovered their former position.

When the rate poundage for county boroughs and administrative counties are regarded separately, the familiar dispersion quickly appears. With respect to the county boroughs, sixty-four had increased rates, nine had not changed, while ten had actually decreased. The increases were distributed as follows:

Increased Rates 1939-44	Number of County Boroughs	Number of Administrative Counties
1 to 5%	18	11
6 to 10%	26	9
11 to 15%	11	6
16 to 20%	6	3
21 to 25%	2	2

The combinations of reductions in rateable value and/or increasing rates all due to the war brought a number of local governments to the verge of insolvency. Local authorities on the whole did not lose revenue substantially, witness the com-

<sup>67</sup> Ministry of Health, *Rates & Rateable Values*, 1944-45, p. 54.



parable amounts collected in 1939-40 and 1944-45; yet the manner in which the burden was distributed, due to the unpredictable exigencies of war, led to hardships in certain areas. To meet this situation a new financial arrangement was concocted whereby the Exchequer would come to the assistance of such local authorities.

### *War Distressed Areas*

Coastal resort towns were hit hardest by the evacuation and by the Government's ban on visitors when the east coast was declared a defense area. The chief industry in such recreational areas, for example, hotels and boarding houses, was virtually shut down; the dependent retail trade and services catering to tourist trade for the twelve-week holiday season was closed. While pre-war shop rents were high, they were forced down 20 to 25 per cent when reduced shop turnover could not support the former figure and the increased number of empty houses lowered the value of all houses.<sup>58</sup> Some towns lowered rents on shore properties by as much as 50 per cent while the reductions in in-shore sections were from 20 to 30 per cent on tourist premises. Before long some owners and occupiers applied for reduced assessments which simply meant higher rate poundages for those who did not apply; even "hypothetical" tenants (people occupying their own premises) claimed similar reductions though they were not adversely affected. The distress did not appear in statistics of unemployment, for those formerly occupied with tourist service were absorbed into the armed forces or into nearby industry, while proprietors were not covered.

The policy on assessments was established under Defense (Evacuation Areas) Regulations in 1940.<sup>59</sup> A moratorium for the east and south coast towns was granted for the duration of the evacuation period, covering payments for rent, rates, water, gas, electricity, and telephone for the unoccupied premises of evacuees. Such premises were considered to be "unoccupied" if nothing but furniture and other household goods were left or if requisitioned by the Government.<sup>60</sup> Thus assessments

<sup>58</sup> *Local Government Finance*, Vol. 43, No. 1 (January, 1941), p. 11.

<sup>59</sup> Defense (Evacuated Areas) Regulations, No. 1209, S. R. & O., 1940.

<sup>60</sup> *Local Government Finance*, Vol. 44, No. 8 (August, 1940), p. 242.

were generally left unchanged and the rates, instead of being cancelled, were simply suspended. For other premises, such as hotels and tourist quarters, the local authorities were obliged to collect as much rate as possible, and under the "hardship" provisions of the Rating and Valuation Act, 1925, accept that portion in full settlement of the liability.

Economies in local services were evidently inconsequential; for one thing, local authorities considered themselves already on a wartime bare-bone basis, and then many services had to be kept up for the permanent residents, since no large shifts in population—aside from children—were attempted. Trading establishments (public utilities) of the local government also suffered a decline in receipts of as much as 50 per cent in services like electricity and gas. Where premises were taken for military purposes, compensation would eventually be forthcoming but in Great Britain, as in the United States, the mills ground exceedingly slow and meanwhile financial pressure increased.

As one means of correcting these differences between local authorities due to the war some proposed a modification of the block grant. In general, the suggestion was ill advised for several reasons and was wisely dropped. It would have been a delayed type of action with a considerable time lag between the emergence of need and the receipt of aid; after all the block grant was a peacetime design and was never intended for war purposes where prompt relief was essential. Finally it would be difficult to know which of the factors to vary: some children under five had left the area; unemployment had not increased; and the Government policy was not to change assessments of rateable value.

Coastal areas and resort towns were not the only instances of distress, for with the advent of the blitz in September, 1940 a number of bombed towns joined the ranks of those financially embarrassed. Local associations took the view that the central government should compensate actual losses in rates by means of a special grant. These towns attacked were "national targets in a national war"; therefore the loss of property and rates were suffered on behalf of the whole nation. The amount of the grant should be calculated as follows: take the cash produce of a penny rate in a standard year, say 1939-40, compare it

with the cash produce in the war year, after the bombing damage, and the difference, multiplied by the poundage would give the amount of grant necessary.<sup>61</sup>

The Government's view was to decline any blanket compensation for loss of rate income. Conditions varied from coastal and evacuation areas, where the problem was simply one of reduced rate income without additional burdens, to the problem of bombed towns where the pinch was doubly felt: first in higher rate burdens as when loan charges for destroyed utilities fell upon the general rate, and second with a sharply reduced rate income. With a policy of general compensation the local authorities would acquire a vested interest in their original rate income regardless of subsequent events. Moreover the problem of cutting off such guarantees at the end of the war was not to be overlooked.

The Government then announced an alternate plan for the relief of these distressed areas whether due to evacuation or bombing.<sup>62</sup> Wherever the loss of rate income threatened the maintenance of "essential" services, the Exchequer made advances to such local authorities, the advance being partly grant and partly loan. But first the local authority had to exhaust its own efforts before it warranted an advance. This involved (1) using up any reserves previously accumulated, (2) drawing on its bank credit (overdrafts) to the prescribed limit, and (3) increasing its rates. The latter requirement was set aside if the rate level was already very high relative to towns of a similar type, or if the rate had increased absolutely over the two preceding years. Having fulfilled these requirements the estimated loss in productivity of a penny rate, compared with the normal yield was the basis for an advance. Seventy-five per cent was an outright grant but 25 per cent was an interest-free loan, and the central government reserved the right to ask repayment of this latter portion, when as and if local financial conditions improved.

The Government's plan was immediately subject to widespread criticism by local authorities.<sup>63</sup> No aid was forthcoming until local resources were exhausted and the local authorities

<sup>61</sup> *Local Government Finance*, Vol. 45, No. 9 (September, 1941), p. 257.

<sup>62</sup> *Parliamentary Debates*, Vol. 372, p. 964 (June 24, 1941).

<sup>63</sup> *Local Government Finance*, Vol. 45, No. 9 (September, 1941), p. 257.

issued an S O S for Exchequer assistance. Such dissipation of reserve funds was deemed financially unsound. Then too it left the extra burden of military action on the resident rate-payers already overburdened by local services, thus causing one consequence of war damage to fall on a small section instead of the whole nation. Obliging the local authority to draw on its credit to the limit by means of bank overdrafts would simply postpone the incidence until after the war when the financial situation might be even worse. Local authorities would find themselves at the end of the war with no reserves, heavily overdrawn at their banks, and in debt to the Exchequer for 25 per cent of the advance.<sup>64</sup> After such a period of hand-to-mouth operations, a return to sound finance would be all the more difficult. Some even felt that the arrangement encouraged extravagance on the ground that the central government would ultimately pay the expense. This point is difficult to see because the advance was related to income and not to expenditure.

The conditions under which the advances were extended present a digression from the central-local relationship of pre-war days. First, the grants were related to *income*, not expenditure, avoiding the pre-war problem of measuring "necessitousness"; and second, a relative standard was implied by comparing like areas. This achieved a kind of uniformity by "leveling up" the rate burden. It is however a perverse type of uniformity, for leveling does not affect those already at high or disproportionate rate levels but simply brings the others up closer to them.

The actual application of the emergency advances can be observed in examples taken from different levels of local government.<sup>65</sup>

## WARTIME EXAMPLES

County	1939-40		1940-41		1941-42		Productivity Loss Due To:
Borough	s.	d.	s.	d.	s.	d.	
A . . . .	12	5	13	10	13	10	53% Evacuation
B . . . .	21	6	21	6	21	6	38% { Evacuation Damage

<sup>64</sup> *The Economist*, August 8, 1942, p. 162.

<sup>65</sup> *Ibid.*, July 5, 1941, p. 11.

Metropolitan  
Borough

A . . . . .	13	2	13	2	13	2	11%	{ Evacuation Damage
(Must increase rate 3d. as condition of grant)								
B . . . . .	18	0	18	6	18	6	43%	{ Evacuation Damage

Non-County Boroughs	1939-40	1940-41	1941-42	Productivity Loss Due To:
	s. d.	s. d.	s. d.	
A . . . . .	9 6	9 6	9 6	40% Evacuation
B . . . . .	14 0	15 3	15 3	57% { Evacuation Damage

Urban  
Districts

A . . . . .	12 8	12 6	13 6	16% Evacuation
(Must increase rate 1s. as condition of grant)				
B . . . . .	14 4	14 6	14 6	60% Evacuation

The aggregate amounts advanced through the war years were as follows: <sup>66</sup>

	Advanced	Repaid	Outstanding
1940-41 . . . . .	£ 4,651,820		4,651,820
1941-42 . . . . .	10,378,880		15,030,700
1942-43 . . . . .	3,866,000	2,041,220	16,855,480
1943-44 . . . . .	849,280	2,710,200	14,994,560

Details are available on specific local authorities (outside the London area) that received aid over the five-year period.<sup>67</sup> Fifteen county boroughs were included on the distress list, and it is instructive to note how these fifteen compared in rateable value lost and rate increases with the other sixty-eight county boroughs that received no advances.

In the table below, the percentage changes in rateable value and rates levied (for 1944 with respect to 1939) have been plotted for all eighty-three county boroughs. Changes of less than 1 per cent fall within the center cross, while the larger changes fall within one of four quadrants. Quadrant I includes increases in both valuation and rate levied; Quadrant IV contains those with increased valuation and decreased rates—the enviable few who came out of the war with an improved financial status; Quadrant III has a few additions with reduced valuation and reduced rates; while Quadrant II contains most of the distress cases where reduced valuation required increased

<sup>66</sup> Cf. Appendix D for details.

<sup>67</sup> *Parliamentary Debates*, Vol. 416, pp. 351-352 (December 11, 1945).

rates to maintain services. Of the fifteen county boroughs on the distress list, twelve fall in Quadrant II; two others are extremes: Southend with a 22 per cent increase in rates, valuation remaining unchanged, and conversely West Ham losing 14 per cent of its valuation, the rate level remaining unchanged. The last of the fifteen is Coventry which, for some strange reason not yet ascertained, reported no loss in rateable value and a moderate increase of only 7 per cent in rates. It is well known that Coventry was heavily hit in the "Baedeker" raids and surely suffered substantial losses which would be reflected in a reduced valuation, thus placing it in Quadrant II with the rest of the distressed county boroughs.

TABLE I

PERCENTAGE CHANGES IN RATES LEVIED AND RATEABLE VALUES FOR  
83 COUNTY BOROUGHES 10R PERIOD 1939-1944

CHANGES IN RATES LEVIED		II				I					
Increases		Over 20%				2					
		16-20%	1	1	1	1	2				
		11-15%		1	1	3	3	3			
		6-10%	1	1	3	6	15	1			
		1-5%	1		4	4	5	1			
		Less 1%		1	1	3	2	2			
Decreases		1-5%			2	1	1				
		6-10%			1		3	1			
		11-15%					1				
		16-20%									
		III				IV					
		5%	10-20	11-15	6-10	1-5	Less 1%	5%	10-20	11-15	16-20
		Decreases				Increases					
CHANGES IN RATEABLE VALUES											

The complete list of distressed areas (excluding London) is given in the Appendix. As for the London area, each of the twenty-eight metropolitan boroughs and the County Council applied for assistance. The list includes, besides the county boroughs already discussed, eleven non-county boroughs and fourteen urban districts. Many of these are east coast towns and became distressed as a result of the evacuation, though war

damage was also a factor in some cases. Non-county boroughs like Dover together with six others from battered Kent County are included, as well as towns from East Suffolk, East Sussex and Essex counties and a scattering of urban districts from other counties.

As already noted, these advances were to be given only when loss of rate income threatened "essential" services. What are "essential" services? Evidently the central government did not attempt to probe into this qualitative question, but, judging from the inhabitants of Quadrant II, applied a rule of thumb. Basically this rule was the loss in productivity of a penny rate compared with 1939-40. But other circumstances were also considered, and so it was that Canterbury and Exeter (both rich Cathedral towns) and Bristol and South Shields were not given advances, though all four fall within Quadrant II. Or likewise *Bath (another rich Cathedral town) and Barrow were excluded though they had rate increases of 25 and 20 per cent, respectively, with no increase in rateable value.*

It will be recalled that anticipated postwar adjustments ranked high among the objections that local authorities made of the Government's distress plan. Discussion occasionally cropped up during the war years while the plan was in operation as to how the grants could be cut off at the end of the war. Some proposed the cessation of industrial derating to increase the valuation loss on which rates could be levied; others believed the grants for loss of rate income should be merged with the block grant. The problem was met promptly by the Government after V-J day when it declared that advances would end in 1945. In a few exceptional cases lump sum grants might be continued for an extended period based on local needs measured by (a) continuing loss of rate revenue, and (b) the rate level increasing if said aid were withdrawn.<sup>68</sup> The Government also announced in Commons that repayment of the controversial 25 per cent interest free loan would not be required with two exceptions: (1) if there is a deficit in revenues of public utility undertakings, or (2) if the expenditures were not strictly justified.<sup>69</sup> Moreover, the bank overdrafts which local authorities were obliged to carry as a condition of an advance, would also be charged off, thus relieving distressed

<sup>68</sup> *Local Government Chronicle*, No. 4118 (November 7, 1945), p. 771.

<sup>69</sup> *Parliamentary Debates*, Vol. 415, p. 1217 (November 6, 1945).

local authorities of a second liability—the Exchequer footing the bill.

### SUMMARY

To review properly the impact of the war on local government finance, a balance would have to be struck between added costs on the one hand and various economies enjoyed by local authorities as a direct result of the war. Quantitative estimates of these costs *vs.* economies are not possible for the latter war years, since there is a lag of about four years in publishing a detailed breakdown of expenditure. However, a comparison may be made for these years: one in peacetime, 1938-39, the next, half in peace and half in war, 1939-40; and the third in wartime, 1940-41.

Certain influences made for rising costs over the whole range of local services and cannot be distinguished individually. The level of general prices is the first and largest cause of rising costs. The White Paper on Education, for example, assumed a 15 per cent increase over 1938-39 in deriving its estimates. The purchase tax and other national excises must be paid upon materials purchased by local authorities for necessary maintenance. Increased wages and allowances registered their effect on the administrative expenses of the local authorities. These price and wage increases will continue into the postwar period when such local services as street cleaning and lighting, roads and park maintenance, and upkeep of buildings are resumed. The fire services, which transferred to the Exchequer in 1941, will be returned to local management with a vested interest on a more costly scale of expenditure than prevailed in 1940-41. Such permanent increases will more than offset any savings from the discontinuance of war services.

Retrenchments were as unpopular as ever even in wartime, or at least numerous excuses were contrived to justify operations on the old scale. Local government associations urged that capital maintenance be kept up else the cumulative cost would be much larger. Police expenditures were as necessary in war as in peace, not to mention their role as a component in ARP activities. Health services were "pivotal if the working efficiency of the population is to be maintained." Reductions in detail were acceptable but no general economies. Even education was spared for its influence "upon personal pro-



ductive efficiency and social well being is profound and too valuable to be lightly sacrificed." <sup>70</sup> Here again the cutting of frills was approved, but who could define a "frill," especially in education?

In view of this reluctance to practice any substantial economy during the war it is a little surprising to find aggregate expenditures declining as much as they did.

RATE-BORNE EXPENDITURES OF ALL LOCAL AUTHORITIES  
ENGLAND AND WALES <sup>71</sup>  
(Millions of Pounds)

	1938-39	1939-40	1940-41	Difference 1938-41
Major Decreases:				
Highway and Buildings .....	£38.2	£34.6	£30.4	£ 7.8
Public Lighting .....	5.7	3.0	1.5	4.2
Poor Relief .....	32.7	32.5	28.3	4.4
Hospitals .....	17.9	17.1	15.9	2.0
				£18.4
Major Increases:				
Civil Defense .....	1.7	9.4	11.3	9.6
Administration .....	13.4	14.2	14.8	1.4
Police .....	12.6	14.1	14.5	1.9
				£12.9

This summary of major increases and decreases in local expenditures gives amounts which were met from rates plus block grant. That is to say, total expenditures for maintenance and loan charges, less specific grants and fees left the balances noted above. It is evident that the total rate-borne expenditure declined by £5.5 million between the last full peace year and the first full war year. That is a net reduction of 2 per cent. Even this small net saving can probably be traced to the Old Age and Widows Pension Act, 1940, for that caused a reduction in poor relief by transferring the cost of supplementary pensions to the Exchequer. It was intended that this would save local authorities £5 million annually, of which 20 per cent or £1 million was deducted from the block grant pool each year. Finally, the transfer of fire brigades in 1941-42 would add only £750,000 to the savings, since local authorities were required to contribute 75 per cent of their 1939-40 expenditures on fire protection to the central department.

<sup>70</sup> *Local Government Finance*, Vol. 44, No. 2 (February, 1940), p. 52.

<sup>71</sup> *Municipal Yearbook*, 1943, p. 31; 1944, p. 41; 1945, p. 27.

## CHAPTER VIII

### POST WAR RECONSTRUCTION AND LOCAL GOVERNMENT FINANCE

#### FINANCIAL CONSIDERATIONS

The war had not long been under way when articles on the postwar period and the role of local governments in the new era made their appearance in the several journals. As early as the middle of 1941, when the recalculation of the block grant formula was postponed,<sup>1</sup> spirited debate was already in progress between the advocates of "retrenchment" on the one hand and "reconstruction" on the other. Much of this preliminary discussion was prompted by the central government's services in putting over the idea of "real resources," or productive power in contrast to "financial resources," or money in the mobilization of a war economy. In general, those who desired some degree of reform, for example, reconstruction of old services and expansion into new areas of the social services, relied on the "real resources" argument. As proof that the nation could "afford it," those who at the same time believed in retrenchment and a severing of the central-local cords—grown so strong during the war—stressed the financial problems that would plague the country directly after the war.

To the former group, "finance" was a mere "camp follower" which did not provide the means of making war but rather distributed the burden of sacrifice among the civilians. They carried the analogy of real goods straight into the local government problems, and took a rather optimistic view of the productive resources after the war. The resources were twofold: labor and equipment. Much skilled labor was in the armed services, but it would eventually be back and on the job to enhance national productivity in peace time; the equipment available had been partly destroyed, as a result of air raids, but on balance there had been a great increase. It was easy to conclude, therefore, that productive resources had not been reduced by war!

<sup>1</sup> *Local Government Finance*, Vol. 45, No. 12 (December, 1941), p. 33.

That embarrassing "camp follower"—the financial side of the real resources—was lightly regarded, for, "If money can be found for war, it can—a fortiori—be found for peace."

Now that the war is actually over and Great Britain emerges in a precarious condition, the heavy wartime obsolescence, as well as deterioration of plant and equipment due to deferred maintenance, requires a more sober view of the "real resources," at least for the immediate future. Great Britain is poorer on several counts than before the war whether measured in real or financial terms: (1) the loss of productive labor, not so much in actual manpower, as in the problems of re-absorption and a changeover to peace production; (2) the loss of capital assets, whether it be buildings, machinery, stocks or ships; (3) the loss of real income from overseas investments liquidated during the war which represented Britain's reserve capacity to acquire foreign goods; (4) a vast increase in the internal debt to say nothing of commitments to the dominions, the colonies, and the United States. As an inevitable consequence of these conditions, a given tax yield would result in heavier burdens; this burden would be especially felt if considerable time must elapse before national income—in consumer goods and services—approximates pre-war levels to say nothing of catching up to the proportionate expenditures which already are well beyond such levels. Indeed if the physical resources are not adequate to do everything at once no financial contrivance can make them do so.<sup>2</sup> The wartime revolt against purely financial limitations has been stretched too far and is based on optimistic views of the nature and weight of postwar taxation.

It might be asked, how relevant is the "real resource" approach in discussions of local government finance? It is one thing for a central government to drain off a portion of the national income through national direct taxation both of individuals and corporations; it is quite another matter to propose that local government should—through raising the poundage on its regressive base of rateable value—also drain off increasing proportions of the same national income. Time-honored local methods of taxation were not designed to reach the surplus elements of the total income. At the national level,

<sup>2</sup> *The Economist*, April 22, 1944.

the Exchequer can follow the old adage "see a head, hit it" when it comes to tailoring its tax program to the distribution of national income. Regardless of how it is distributed regionally over the country, or among income receivers, national taxation can search it out. A rising national income is of no avail to a particular local government if the increment is distributed among the residents of another region, or just across the boundary. The only way in which local governments generally might tap new additions to national income would be centrally collected, locally shared taxes, that is, in effect, larger grants from the Exchequer. Yet the very groups which point to the expansion of real resources as justifying large expansion and "reconstruction" in local services are the same ones that protest most loudly against the increasing dependence (with its accompanying supervisions) upon central authorities.

Thus finance is something more than a mere camp follower so far as the local governments are concerned. As Hawtrey points out, in one division of this finance *vs.* real resources problem,<sup>3</sup> finance is the shadow of economic reality; the revenue expenditure process is likewise a silhouette of the economic facts and the tax contribution is the shadow of the burden on the individual ratepayer. Rates and other taxes are still a "loss" to the taxpayer no matter how wisely spent for the benefit of someone else.

The postwar reconstructionists were fond of citing the anomaly of "Bomber Sales" during the war, to illustrate the basic importance of productive power over financial considerations. Thus the sale of bonds to buy a bomber did not of itself shift a single worker or machine into the production of bombers. Had more bombers been needed the Government would have diverted productive power into the field regardless of loans. Yet, it must be noted, the sale of bonds did have a function; it prevented the economic and social strain which the diversion of resources would otherwise have imposed on the country. Thus it can be said the financial side is at least a partner in the mobilization of labor, machines, and materials. Postwar demands upon the national income will be substantial for such items as war debt and pensions, armaments, reconstruction and

<sup>3</sup> *Local Government Finance*, Vol. 45, No. 7 (July, 1941), p. 189.

social services. Reconstruction may refer to the repair of war damage (for example, housing), deferred maintenance, or to renew, improve and extend material equipment, most of which are in the nature of capital charges. Social services, on the other hand, represent recurring charges, and as they increase in magnitude, the costs will soon be felt by moderate income and wage-earning groups. To note Hawtrey again: "Social services become less an expedient for distributing the superfluity of the rich to meet the exigencies of the poor, and more a method of redistributing the resources of the mass of the people themselves in such a way as to meet the greater needs."<sup>4</sup> This being so, more services are placed on a contributory basis such as health insurance, unemployment insurance, widow and orphan pensions and contributory old age pensions. The widening of the financial base for these services suggests that a limit has been reached in draining the pool of profits or other surplus elements in the national income.

In the "real resources" argument, the implications for larger grants and corresponding expansion in the area of central control is recognized by some local government groups. They then raise the fundamental and perhaps unanswerable question: what proportion of national income should the state appropriate in the postwar period?<sup>5</sup> Their answer is based on two considerations: political and economic. On the political side it is believed the higher the proportion of national income devoted to the public service the greater the diminution of individual freedom. It is not a question then of what the country *vis-a-vis* local governments *can* afford, but rather what is *desirable* that it should afford. The economic phase turns, of course, on the level of national income so that taxation may be borne with reasonable tolerance.

Attention may be directed at this point to the net national income (excluding transfer payments) just before and during the war years, together with the percentage expended on goods and services by all public authorities, both central and local:<sup>6</sup>

<sup>4</sup> *Ibid.*, p. 190.

<sup>5</sup> *Local Government Finance*, Vol. 48, No. 6 (June, 1944), p. 105.

<sup>6</sup> *An Analysis of the Sources of War Finance and Estimates of the National Income and Expenditure in the Years 1938 to 1944*, Cmd. 6623, p. 16. (Hereafter cited as Cmd. 6623.)

	1938	1939	1940	1941	1942	1943	1944
			(Millions of Pounds)				
Net National Income ....	4,619	4,970	5,913	6,877	7,554	8,079	8,334
Expended by central and local authorities .....	903	1,306	2,945	3,984	4,343	4,913	4,944
Percentage .....	20%	26%	50%	58%	57%	61%	59%

With expenditures at such levels and with large postwar financial problems looming up, for example, paying for enlarged imposts without the old overseas credits, debt service, etc., the local authorities may well wonder where the "money" is coming from.<sup>7</sup> In the first place, with high level national taxation, the Exchequer will be hesitant about increasing financial aid to local governments. New attempts may be made to limit the old percentage type grants in favor of the fixed grant, such as the block device purported to do in 1929. In the second place, since rates and national taxes (direct or indirect) come from the same pockets, people already burdened with high national levies will be reluctant to accept any rise in rates. Finally, with tax rates so much higher, there is a greater need for an equitable basis. An old tax becomes a "new" tax when it increases above some point; the regressive character of rates, for example, increases with the level; and since the lower income groups are now reached by the income tax, they will reinforce the opposition to rate increases which formerly originated from commercial and industrial sources.

*The Economist* neatly summed up the problems when it said:

It is easy for an economist to show that in real terms reconstruction and social reform can be afforded by the nation. But with the present distribution of money costs between rates and taxes, and the inequitable and inefficient character of the rating system, it is equally easy for rate payers to prove that—whatever the nation as a whole may be able to afford, no individual local authority can stand more than a limited increase in the present level of rates.<sup>8</sup>

As a result, every social reform—and practically all are administered locally—would be viewed, not on its merits, but by its effect on local rates. This being so, the only solution is a redistribution of burden between central and local funds, which is easier to do by transferring the functions rather than

<sup>7</sup> *Local Government Finance*, Vol. 45, No. 12 (December, 1941), p. 337.

<sup>8</sup> *The Economist*, January 1, 1944, p. 10.

the financial responsibility *per se*. Such structural changes have been going on for years, especially since the decade of the 1920's.<sup>9</sup> First, the ancient poor-law system was remodeled. The old methods of local responsibility offered no solution in cases of severe localized unemployment, hence the Local Government Act of 1920 was passed. The process of redistributing the poor relief function was accelerated in the Unemployment Act, 1934, and again in the Old Age Pensions Act, 1940. The Beveridge plan proposes still further changes in poor relief responsibility. Second, functions were shifted from smaller and less able local authorities to larger units possessing a wider tax base. Thus police and education went to the county, as well as certain highway functions formerly entrusted to the lesser authorities. Third, the outright transfer of services to the state appears as a relatively new departure in the middle thirties. Where some problem definitely outgrows county boundaries, the central government in the absence of regional areas is the only remaining authority able to absorb the function. Thus in a few years' time, unemployment relief for the able-bodied, old age pensions, trunk roads and the administration of the fire services were assumed by the appropriate central department. The war gave impetus to the idea that local authorities should act as agents for the central government; perhaps the movement might be continued in peacetime in the proposed expansion of social services. Local governments have usually been judged on the basis of financial ability, and services would be removed when they were no longer able to maintain them. Perhaps the local units might be utilized for their administrative ability, as in the case of the NFS, where they were simply agents of the central department. Such a status would naturally be resisted by the local authorities which have jealously guarded their prerogatives through the centralizing pressures of the war years.

Fourth, and last, is the continued expansion of state aid by relating it to need (per formula 1929) rather than expenditure (as in the per cent grants). This perennial willingness to shift the burden from ratepayers to taxpayers does not however, offer an ultimate solution. Moreover the general increase in rate levels has been small compared to the increase in national tax-

<sup>9</sup> *Local Government Finance*, Vol. 45, No. 8 (August, 1941), p. 227.

ation during the war. While the latter are apt to continue fairly high for years to come, the relative loads borne by national taxation and local rates, in the aggregate, may be discerned from the breakdown by type of tax: <sup>10</sup>

(Millions of Pounds)								
	Total Private Income <sup>1</sup>	Direct Taxes		Indirect Taxes		Rates		Total
		Amt.	%	Amt.	%	Amt.	%	Amt. %
1938	£5063	£ 568	11.2	£354	6.9	£211	4.1	£1133 22
1939	5411	714	13.1	391	7.2	222	4.1	1327 25
1940	6359	1071	16.8	462	7.2	228	3.5	1761 28
1941	7355	1558	21.1	631	8.5	225	3.0	2414 33
1942	8050	1865	23.1	734	9.1	225	2.7	2824 35
1943	8664	2059	23.7	812	9.3	224	2.5	3095 36
1944	9018	2206	24.4	790	8.7	226	2.5	3222 36

<sup>1</sup> National Income plus transfer payments.

Thus national taxation (both direct and indirect) took 18 per cent of the total private income in 1938 and 33 per cent in 1944. The total income from rates was remarkably stable through the war years. The drastic effect of direct national taxation (income and surtax only) may be observed in the following distribution of income, after tax for the pre-war year 1938-39 and the war year 1942-43: <sup>11</sup>

Range of Income after Tax £	Number of Individuals	
	1938-39	1942-43
150-250	4,500,000	7,000,000
250-500	1,820,000	5,300,000
500-1,000	450,000	550,000
1,000-2,000	155,000	117,000
2,000-4,000	56,000	31,750
4,000-6,000	12,000	1,170
6,000 and over	7,000	80
Total	7,000,000	13,000,000

With national taxes at such levels, and individual incomes so sharply reduced, it is difficult to see where there is much margin left for enlarged grant-in-aid from the Exchequer. While official estimates of the Exchequer's postwar commitments are not yet available, it is probable that a high level of national expenditure will continue for the military, housing and reconstruction, debt charges, and so on.

<sup>1</sup> Cmd. 6623, p. 29.

<sup>11</sup> Cmd. No. 6623, p. 31.



## PLANS FOR RECONSTRUCTION: I. GOVERNMENT

It is interesting to note that the various plans submitted by the local government associations as well as the White Paper recently prepared by the Government concern themselves with almost the identical problems of earlier periods. In 1888, as already noted, the "Goschen System" reformed the structure and finance of local authorities. Again in 1929 the basic "reform" was in consolidating local areas, rearranging their boundaries, and reconstructing their finances. Now in 1945 the inevitable pressure of expanding services, accelerated by war-time burdens, has again resurrected the familiar dilemma: inadequate resources within a single area to carry out the standard of services expected. But the latest emergence of the old problems into the Parliamentary spotlight carries a new threat to alarm the local authorities, namely, the possible extension of regionalism on a permanent peacetime basis.

*Regionalism*

Regionalism is hardly a new "threat." The first movement started after the first world war when experiences through that period pointed to a possible reorganization of local government for the anticipated expansion of civic and economic services. The principle was anathema to all local authorities and nothing came of it. A partial application was made by the Ministry of Health, the Ministry of Labor, and the Ministry of Transport in setting up regional divisions staffed with central department personnel; but this was more to decentralize certain services than to erect another tier of authority between local governments and the central department. Royal Commissions, as in the investigation of "Local Government in the Tyneside Area," recommended the reclassification of services into "regional" and "local" with a new authority to be erected for the whole Tyneside area. No results came of this or similar proposals by other Royal Commissions.<sup>12</sup>

The device of Joint Boards was used in lieu of regional organization to meet the requirements of particular services which cut across local boundaries, for example, water supply, hospitals, electricity and gas, transportation, and so on. Such

<sup>12</sup> Distribution of Industrial Population 1940.

boards are subject to criticisms on several points: (1) they are not elective; (2) they must rely on precepts upon rating authorities in the area for revenues; (3) they divorce the planning function from executive authority which will eventually implement the plan. Notwithstanding these points, Joint Boards are widely used and in the year ending November 31, 1937 (last published date), the boards existed for about fourteen different services with expenditures of around £17 million.<sup>13</sup>

The greatest impetus to regionalism came, of course, during World War II when twelve civil defense regions were established to expedite such wartime activities as ARP and NFS. While local government associations steadfastly opposed any carry-over of the regional system into the postwar era, other groups as strongly espoused it. *The Economist*, for example, urged some form of regionalism as a solution to the old weakness of local governments where (1) quality of services and costs of administration varied widely between local areas, and (2) variations in rates and absence of uniformity in assessments created wide discrepancies in the burdens borne by rate-payers.<sup>14</sup> Thus on the grounds of efficiency in services where existing areas are too small and to provide additional revenue by proposing an income tax within a region, a regional plan appeared as a possible solution of some merit.

The opposite view laid the emphasis on the need for local governments as a school for democratic control, a criterion which is probably of equal importance with straight efficiency. Some of the regional success during the war was undoubtedly because, "the whole power of state finance has been placed behind the organization (NFS) and there is no cheese paring in regard to proper development."<sup>15</sup> When the resources of the Exchequer are withdrawn from unlimited support of such regional functions, and the burden again falls on the rates, the cost of this new tier of government inserted between local authorities and central departments may compel considerable "cheese paring." Since local governments demonstrated their adaptability during the war stresses, why indeed should the

<sup>13</sup> *Local Government Financial Statistics England and Wales, 1936-37*, Pt. III, p. 74.

<sup>14</sup> *The Economist*, June 13, 1942, p. 816.

<sup>15</sup> *Local Government Service*, Vol. 23, No. 3 (March, 1944), p. 43.

country turn to *ad hoc* regional bodies or, "untried units possessing logical and uniform executive powers but without functional experience in the tradition of local government."<sup>16</sup> The financial argument that regions would enable new sources of revenue to be developed, such as income tax, was countered by showing that "county rates are more or less common to all the local authorities in the county administrative area," plus flat charges for sewerage, highways, and other services. As for new revenue schemes involving direct taxes, it was pointed out that (1) yields would depend on the volume of employment and price and wage levels; (2) the schemes would have to mesh with the national system, and (3) the effect must be judged by the over-all view of tax burden including rates and income taxes.

Therefore, in lieu of regionalism, the local associations proposed the transfer of additional functions to County Councils and county boroughs. This system would provide comparative uniformity of service and rate burden and effective administration especially when supplemented by joint boards to cover inter-county affairs.

The latter views have apparently prevailed, for in its White Paper on Reconstruction the Government denied any intention of maintaining regions in peacetime. "It can be stated definitely that it is no part of the Government's policy in dealing with postwar reconstruction to perpetuate the system of Regional Commissioners."<sup>17</sup> The wartime regional experience did not alter the basic system of local government. Such regions were not intended to centralize local functions but rather to decentralize the Government departments (in respect to war services) which would have been necessary had communications been disrupted by an invasion force.

### *Nationalization of Services*

Another source of apprehension to local authorities was the thought that more and more services would be transferred out of local hands into central departments. As the White Paper on Reconstruction pointed out, only two permanent transfers

<sup>16</sup> *Ibid.*, p. 43.

<sup>17</sup> *Local Government in England and Wales during the Period of Reconstruction*, January, 1945, Cmd. 6579, p. 5. (Hereafter cited as Cmd. 6579.)

were made in the previous decade: (a) the support of able-bodied unemployed was given to the Assistance Board by the Unemployment Act, 1934, and (b) supplemental support for the aged and widows was also placed in that Board by the Old Age and Widows Pension Act, 1940. The only other transfers involved the national veterinary service, the National Agricultural Advisory Service, and certain aspects of milk production control, all achieved by three rather minor agricultural acts. Finally, under the Trunk Roads Act, 1936, a small mileage of county roads was placed under the Ministry of Transport.

The Government did not deny that further transfer might be considered in the case of trunk roads and social insurance, especially the assistance features as outlined in Cmd. 6550. Local associations can relax somewhat in the commitment that, "the Government are opposed to any general policy of centralizing services hitherto regarded as essentially local."<sup>18</sup> To what extent the new Labor Government will modify this policy is problematical and necessarily lies outside the immediate scope of this investigation.

### *Finance*

The White Paper suggests two main reasons for the financial burdens which the local authorities may expect in the reconstruction period.<sup>19</sup> The first is the higher cost of prewar services due to a higher price level affecting wages, salaries, maintenance costs, and so on. But the money incomes of ratepayers are also increased by this general rise in prices; so the inference is that no net increase in over-all burden will result. The second cause of higher cost is the addition of new services or the wide expansion of old services contemplated in education, housing, and health. Here again, the cost will depend on the price level and the rate at which these "reforms" are introduced. Nonetheless, the increase will be substantial as may be seen below.

#### TOTAL LOCAL EXPENDITURES (Millions of Pounds)

	Prewar	Immediate Postwar	Eventual
Education .....	£93.8	£129	£203
Health .....	41.0	92	

<sup>18</sup> *Ibid.*, p. 5.

<sup>19</sup> *Ibid.*, p. 7.

Remembering that these estimates are based on assumed price levels, the net burden will be a staggering one if left to local authorities alone.

The Government then proposed to mitigate this burden in three ways: (1) by increasing the direct grants on specific services; (2) by continuing the block grant with periodic revisions upward, and (3) by assuming the full cost of some services previously borne by the local authorities. Thus the proposed expansion in grants on education and health would be as follows:

TOTAL GRANTS (Millions of Pounds)		
	Prewar	Postwar
Education .....	£45.0	£71
Health .....	.5	44

But this still leaves a sizable additional load on the local authority rate base, the consequences of which will be noted below.<sup>20</sup>

The continuance of the block grant is again only a partial solution. As it operates now, the total block grant must equal 22½ per cent of the total expenditure of all local authorities met out of rates. As usual, the exact amount is calculated once every five years, using rate-borne expenditures in the penultimate year of the previous grant period as the base. Thus when a percentage grant, say 50 per cent, is made for a specific service, for example, education or health, that portion falls on the Exchequer and the remaining 50 per cent on the local rates. But in the next review period, the Exchequer—through the block grant—also pays 22½ per cent of this portion falling on rates. Thus the central government actually assumes 61.25 per cent of the cost of the new service. The Government also points out that Parliament can modify the total amount of the block grant, as well as the formula distributing it, should the reconstruction costs prove too formidable for the local authorities to carry. As early as October, 1944, the War Government then in power promised to continue the distribution of the block grant with the usual bias in favor of poorer local authorities and agreed to a general overhaul of the formula in the postwar period when the necessary data became available.<sup>21</sup>

<sup>20</sup> Below, p. 164.

<sup>21</sup> *Parliamentary Debater*, Vol. 403, p. 752 (October 3, 1944).

Special problems would continue despite this three-way attack on the reconstruction situation. These are, first, local authorities whose finances have been disrupted by the war; second, other areas where war damage raises questions of restoration and town and country planning; and third, the perennial problems of poor areas. On the latter point, the block grant does have an equalizing effect; but no single panacea can be evolved to meet the diversity of conditions, for example, shifts in industry, which makes for poor or "distressed" areas. The solution lies, in part, in spreading the costs of certain services over wider areas by some amalgamation of local units, and in part, by revision of the block grant formula to give a larger proportion of the money to such local authorities.

Aside from these problem cases, two bequeathed by the war government and one of old standing, the Government's plan fits in the familiar pattern of prewar central-local relations and concludes, somewhat optimistically: "The existing machinery can thus be adapted without any fundamental changes to meet the problems arising from the expansion of locally administered services."<sup>22</sup> This conclusion is reinforced, first, by the local associations' firm position against any disruption of the present system; and second, by the fact that any full-dress inquiry would take years, meanwhile holding up the Government's basic program in housing, education, and health. The local associations felt that no steps should be taken to "revolutionize" local government until the credit and financial system was adjusted to the postwar burden, or the town and country plans were carried out. But by that time such drastic reforms as regionalism, nationalization, etc., would not be necessary. After some financial reforms and boundary revisions, the community machine would remain as the administrative unit, which has shown much originality and adaptability in wartime. It would again be established as the economic entity with enough resources and "positive support" to undertake the needed services.<sup>23</sup>

<sup>22</sup> Cmd. 6579, p. 8.

<sup>23</sup> *Local Government Finance*, Vol. 46, No. 6 (June, 1942), p. 117.

## PLANS FOR RECONSTRUCTION: II. LOCAL AUTHORITIES

Prior to the issuance of the White Paper outlined in the preceding section, the several local government associations had been busily engaged in formulating their plans and outlines for the eventual postwar reconstruction. As early as the spring of 1942 the Association of Municipal Corporations set forth its survey and recommendations,<sup>24</sup> and in July, 1943, they joined forces with the County Council Association to combat "the drastic changes made and sought to be made by the Government in the local government services."<sup>25</sup> Since their criticisms of the *ad hoc* central-local program set up under war-time conditions were fairly representative of local government generally, some attention may be given them at this point.

In the first place, from their point of view, the Government was starting from the wrong end in redistributing local services without first settling on the best units to handle them. Each central department seemed to make plans irrespective of other departments. Thus the Ministry of Health promulgated a National Health Service while the Board of Education (now the Ministry of Education) set up extensive reforms in its field. Such isolated programs, each sufficient unto itself, might lead to different areas being prescribed for each of the major services or might compel the fitting of one service, for example, education, into an area selected according to the needs of another service, as health. The second principal criticism was directed at the "encroachments" by the central government upon time-honored local services. With fire brigades and the veterinary services already taken over and the local functions with respect to milk production, agricultural education and Class I Roads being viewed covetously by the respective central departments, the next step would be the health services, "social security," and local undertakings. The associations spoke out strongly against this "series of piecemeal attacks upon a system which is the envy and admiration of other countries."<sup>26</sup>

It must be noted, however, that the local associations were partly responsible for these "attacks." Whenever the Govern-

<sup>24</sup> *Municipal Journal*, May, 1942.

<sup>25</sup> *Municipal Yearbook*, 1944, p. 448.

<sup>26</sup> *Local Government Service*, Vol. 22, No. 21 (September, 1943), p. 449.

ment invited the associations to submit proposals, each would inevitably tender a plan designed to meet its own best interests, and more or less disregard the others. Thus the Association of Municipal Corporations urged a reconstructive plan revolving around large county boroughs; the County Council Association in its turn advised more powerful County Councils, while the Non-County Borough Association, the Urban District Council Association, and the Rural District Council Association objected to both plans lest they be liquidated as responsible units of local government. On the other hand, the National Association of Local Government Officers (NALGO) cuts across these lines, for its members come from all levels of local government. Consequently the proposals of this latter association may be taken as more objective and representative of local government as a whole. Finally, the recent political changes in Great Britain with the ascendancy of the Labor Government give special significance to the published proposals of the Labor Party in 1943 on the question of local government reform.

To survey the respective schemes of all these local associations would be needlessly repetitious. With the exception of the district councils, they fall into a pattern with varying points of emphasis according to the type of local government represented. It will suffice for the present purposes to combine the plans into their composite patterns with more attention being given to the NALGO and Labor Party programs.<sup>27</sup>

The principal defects of the local government system, *circa* 1945, as enumerated by the local associations, are not unlike the list propounded in 1888 and again in 1929 at which times specific overhauls were made.<sup>28</sup> First and foremost is the great proportion of small authorities with inadequate populations and financial resources for the standard of services attempted. This

<sup>27</sup> The several plans may be noted as follows:

- a. Association of Municipal Corporations, *Municipal Journal*, May, 1942; also *Local Government Finance*, Vol. 46, No. 9 (September, 1942), p. 164.
- b. National Association of Local Government Officers, *Local Government Service*, Vol. 22, No. 14 (February, 1943), pp. 287-294; also *Municipal Yearbook*, 1944, p. 449.
- c. Labor Party Proposals, *Municipal Yearbook*, 1944, p. 450.
- d. Rural District Council Association, *Municipal Yearbook*, 1944, p. 451.

<sup>28</sup> *Local Government Service*, Vol. 22, No. 14 (February, 1943), pp. 287-294.



is evidently a perennial defect and the reforms of 1888 and 1929 were simply palliatives which in turn collapsed under the ever-growing weight of expanding services. The second defect is the overlapping and duplicating of services as a result of dividing local functions among authorities in the administrative county. Unsuitable administrative boundaries, public apathy, and scant means of cooperation between these local authorities are only partially offset by the device of joint boards. The third principal defect in the eyes of the local associations is the unequal standard of services. Not only do these differences exist between rich and poor areas, or urban and rural, but within a single unit, such as the county, there are wide variations. Despite large percentage grants from the Exchequer, and the moderately equalizing effect of the block grant, there is an inevitable range in the standards which can be maintained. The policy hitherto has been to preserve local boundaries and impose some degree of equalization from the top by means of grants. As the new proposals will indicate, the emphasis is to be shifted so that equalization will emerge from below by combining rich and poor, urban and rural, areas into single authorities. Thus the financially stronger units will be compelled to lock step with their weaker neighbors and carry some of the load instead of leaving equalization up to the Exchequer. To a certain extent this may result in leveling down the standard of services which seems to be consistent with the present central policy of "bread for all before cake for some" in matters of local government services.

These defects appear most sharply in the cases of the smaller authorities as a direct result of their diminutive size and resources. Consequently the first phase of reconstruction provides for a drastic reduction in the number and types of local units. Boundary commissions will be set up to survey the local needs and resources and to establish an optimum size. In a sense this is a logical continuation of the Local Government acts of 1929 and of 1933, especially the latter, where a permanent review procedure by a Boundary Commission was set up. But insofar as new and sharper criteria are to be employed, substantial consolidations of urban and rural districts might result.

The second proposal of the local associations is to set up a

single all-purpose authority to end the perennial problem of "too many and too small." This would provide one authority in one area with a combination of town and country and sufficient resources to enable some over-all standard of service. The Labor Party would set up about 40 "major authorities" more or less along the lines of the present counties. These have sometimes been called "regional authorities," but, in view of the distaste for anything regional on the part of local authorities, the word "major" was substituted. These major authorities would carry on most of the grant-aided services now scattered among the various units, especially health and education, in order to achieve unity of administration, sufficient resources, and adequate school population. The next echelon below these governments would be the "area authority," about three hundred in number with the primary function of administering purely local duties and other powers *delegated* by the major authority. The optimum size of these area authorities would be set with a view to population, rateable value, administrative convenience, and the proportion of town and country. Thus many of the small urban and rural districts would be amalgamated, using the existing 83 county boroughs and the larger urban and rural districts as nuclei. To insure maintenance of standards, the major authority would have powers of default over area authorities within its jurisdiction; likewise the Ministry of Health would have similar powers to act whenever the major authority was lax in its performance. On the financial side, these major and area authorities would have enough resources to provide the revenue needed aside from existing grants. The major authority would do the actual assessing of rates while area authorities using this assessment would be responsible for the levy and collection of rates to meet their own expenditures. The system of precepting would be retained so the major unit might levy a uniform precept upon the areas if its rate income was not enough to cover expenditures after grants. Since the major unit would perform most of the grant-aided services, the rate relief (or burden) would be spread uniformly among the areas. Capital expenditures would be closely controlled and access to the capital market would be restricted to the major authority. Area authorities must submit their requirements to the major authorities and in effect would

borrow from that unit. The major authority, in turn, must submit its capital requirements (including that of its areas) to the central department for approval. It will then be authorized to borrow in the market under regulated rates, or in other cases, the Treasury may supply the capital funds and do the borrowing itself. Since the Labor Party also proposes that local trading establishments be publicly owned in some national scheme, whatever capital is required will more likely be for such projects as housing, health, education, etc.

In summary, the Labor plan for local government reforms attempts to deal with an acknowledged defect of local government—too many and too small. It disposes of some twelve hundred joint bodies designed to overcome the disadvantages of narrow administrative areas; it pools resources and thereby makes for more uniform services; it absorbs town and country into one unit, thus disposing of the old distinction; and establishes a balance between industrial, agricultural, commercial and residential areas within each local unit. The enlarged authority also meets the problem of population shifting from rural to urban areas. This should eliminate or at least reduce the present conflicts between County Councils and county boroughs where the latter desire to annex a suburban area which reduces the rateable value under the county's jurisdiction.

The plan proposed by the National Association of Local Government Officers (NALGO) may also be reviewed, first, because their proposals are not colored by the vested interests of any particular level of local government, and second, because of the strong similarity to the Labor Party program.<sup>20</sup> On the other hand, NALGO has restricted itself to the administrative structure of post-war local government and has little to offer on the specific details of the financial organization. It differs slightly from the Labor program in choosing to draw its local boundaries on the basis of population, which NALGO believes to be more significant than amounts of rateable value—perhaps thereby revealing its bias as an association of administrators rather than one of finance officers. The single all-purpose authority is also the basic unit in NALGO's plan. Since the Association of Municipal Corporations builds its plan around a similar feature, concurred in by the County Councils Asso-

<sup>20</sup> *Ibid.*, pp. 287-294.

ciation, it may be concluded that the majority favor this innovation in remodeling the existing structure. As will be noted presently, however, the non-county boroughs and districts are loud in their protests.

NALGO proposes to divide England and Wales into a number of directly elected all-purpose authorities with populations ranging from 100,000 to 500,000. Exceptions would be considered in the cases of existing county boroughs of large size and in sparsely settled rural areas.

In order to observe the drastic effects that the NALGO or Labor Party proposals would have on the size and numbers of local authorities, the following summary may be noted.

NUMBER OF LOCAL GOVERNMENTS IN ENGLAND AND WALES BY POPULATION AND RATEABLE VALUES MEASURED BY PENNY RATE <sup>80</sup>  
(London County Council and Metropolitan Boroughs Excluded)

	61	83	309	572	475	
Population (000)	Counties	County Boroughs	Non- County Boroughs	Urban Districts	Rural Districts	Total
100-500	48	44	11	2		105
20-100	11	39	152	112	117	431
10-20	2		51	159	209	421
Under 10			95	299	149	543
Product of Penny Rate						
Over £2,800	41	46	25	3		115
£2,000-2,800	6	14	19	5		44
£1,200-2,000	4	20	36	14	4	78
Under £1,200	10	3	229	550	471	1263

Thus there would be about 105 all-purpose local governments with a population of 100,000-500,000 in contrast with the Labor proposal of about 40 major authorities. The latter estimate might be stretched to 48 to include all counties in this top population bracket. Nonetheless it is evident that the NALGO plan is less drastic in providing for twice as many top-side authorities as the Labor program would have.

Where the all-purpose authority is largely urban it would be administered as one unit. But where it is mainly rural, the top authority would be subdivided into lesser units and the urban and rural districts regrouped accordingly. Where a sub-unit contains 20,000 to 100,000 population, it would have its own

<sup>80</sup> *Ibid.*, p. 288.

elected council and carry out the purely local functions *delegated* to it by the all-purpose authority which retains ultimate control. In this matter of delegation and ultimate control the two plans are alike and it is the point that arouses the strongest protest from the county districts. While being subject to the control of the all-purpose authority on matters of staff, expenditures on the delegated duties, and the maintenance of certain standards, the sub-units (20,000 to 100,000 population) are otherwise free to exercise their prerogatives. They can provide standards higher than those set by the all-purpose authority as minimums and can levy additional rates to support such services.

It will be noted from the table above that there are approximately 430 local governments with populations between 20,000 and 100,000. These 430 authorities might be constituted "sub-units" with their own elected councils under the NALGO plan. This number may be contrasted with the figure of 300 "area authorities" which constitute the second echelon of local government under the Labor plan. It so happens that there are about 308 local authorities between 30,000 and 100,000 population; thus the Labor plan envisages local authority for those areas above 30,000 while the NALGO plan would lower this to 20,000.

In cases where a sub-unit has less than 20,000 population, the NALGO plan would permit an elected district council to act as a "District Committee" in administering those services delegated to it by the all-purpose authority. But local autonomy at this level would be sharply restricted; the district committee would be virtually an agent of the all-purpose authority. Since there are about 960 local governments with less than 20,000 population the drastic nature of the plan is evident.<sup>31</sup> In extenuation of such action, attention must be drawn to the financial resources of these small local authorities as measured by the product of a penny rate given in the aforementioned table. NALGO estimates that a penny rate producing £1,200

<sup>31</sup> Cf. *The Economist*, May 6, 1944, p. 598, for the parallel proposal of the Liberal National Committee. They would establish a boundary commission and consolidate all small authorities so the minimum population in any area would be 10,000. As the table indicates, this would eliminate about 543 local governments.

is about the minimum amount of resources that a local government needs for adequate services, apart from large grants. It will be noted that almost all rural districts and 71 per cent of the populous non-county boroughs fall below this arbitrary norm. One adjustment can be made for a "twilight zone" to include those local authorities with rateable values ranging from £100,000 to £300,000 which means a penny product from £400 to £1,200. Fully 350 local authorities (including 10 counties and 3 county boroughs) fall into this marginal category. Attention can then be directed to those local governments with penny products below £400. There are 912 of these "sub-marginal" local authorities, which squares roughly with the 960 local units to be classified as "district committees" under the NALGO plan.

LOCAL AUTHORITIES WITH PRODUCT OF PENNY RATE BELOW £400 <sup>82</sup>

Rateable Value	Non-County Boroughs	Urban District	Rural District	Total
£80,000-100,000	13	42	39	94
60,000- 80,000	21	68	69	158
40,000- 60,000	20	76	97	193
20,000- 40,000	37	126	110	273
10,000- 20,000	21	78	39	138
5,000- 10,000	12	22	10	44
Under £5,000	2	8	2	12
Total	126	420	366	912

Similar results are obtained by varying population data to isolate the smallest authorities or rateable values to delineate those with inadequate resources. It may be concluded, therefore, that from 900 to 960 local authorities in existence today will have to be consolidated if local government reconstruction is to be anything more than a makeshift palliative such as the reforms of 1888 and 1929 turned out to be. This needed consolidation would be entrusted to a Local Boundary Commission to be established by the Government as a permanent body for surveying and recommending necessary changes.

One point on which the NALGO plan goes beyond the Labor proposals is the establishment of "Provincial Councils" to be indirectly elected by the all-purpose authority. It is partly a concession to regionalism, for these provincial councils are to

<sup>82</sup> *Local Government Service*, Vol. 22, No. 16 (February, 1943), p. 288.

coordinate plans and other local functions in wider areas beyond the bounds of a single all-purpose authority. These councils, aptly named "provincial" to avoid the stigma of a "regional" connotation, will have no direct executive or administrative power. Their recommendations, however, will be mandatory upon any all-purpose authority involved in a given situation.

The Association of Municipal Corporations also concedes the need for something larger than the all-purpose authority. While they too reject regionalism in the wartime pattern as neither necessary nor desirable, they recognize the usefulness of some regional echelon as a "representative merger" between the local governments and the central departments.<sup>33</sup> Its capacity, in contrast to NALGO's plan, would simply be advisory and all local governments would still enjoy the right of direct access to central departments without the intervention of a regional or any other level of government. This direct access to Parliament without going through channels is one of the jealously guarded prerogatives of English local government. It may be questioned however, if such free access might not cause considerable congestion in Whitehall when the scope of local government activities increases substantially in the postwar period. There are now 1,530 local governments in England and Wales divided as follows:

County Boroughs .....	83
County Councils .....	62
Metropolitan Boroughs .....	29
Non-County Boroughs .....	309
Urban Districts .....	572
Rural Districts .....	475

1,530

Even if this number be reduced by 900 (an extreme figure) as a result of consolidation, there would still be 600 local authorities with ready access to the central departments and Parliament.

These plans for local government reconstruction threaten the existence of most urban and rural districts and not a few of the non-county boroughs. It goes without saying, therefore, that strong protests have been stated by the associations representing these three groups of local authority. As might have been

<sup>33</sup> *Local Government Finance*, Vol. 46, No. 9 (September, 1942), p. 164.

expected, the proposal to reduce sharply the number of local authorities aroused great apprehension among the county districts. In the first place, while they concede the desirability of curtailing the powers of small inefficient units, the "inefficient" is described as an "authority without sufficient resources to administer, in an effective and economic manner, the functions of local government." This criterion would also apply, as the non-county boroughs are fond of pointing out, to a county council unable to function without precepting on large non-county boroughs or urban districts within the county area.<sup>34</sup> It will be remembered that fully ten counties have a penny rate producing less than £1,200, but it must also be remembered that these would include some rural and sparsely settled regions. In the second place, the districts also concede the need for some continuing reorganization along the lines of the 1929 Act, in reviewing boundaries. Amalgamating rural districts wherever needed to procure a rural district with adequate resources is one thing, but wholesale consolidation around a large urban nucleus is quite another. Such complete absorption would mean the disappearance of villages as responsible entities and "destroy the communal feeling of ordinary citizens."

The heaviest artillery, however, is reserved for the single all-purpose authority which appears in the schemes of all the leading planners. Here the urban districts and the non-county boroughs join the opposition launched by the rural districts, for all three types of local government would be relegated to a secondary level. In the first place, the single all-purpose authority would be too large and unwieldy as an administrative unit, especially where existing counties have sparse populations and small rateable value. Administration by a single authority could not be as efficient as the present two-level system—County Council and county districts—with an assortment of areas. The urban districts actually expressed a fear that the rural vote might predominate in some of the major authorities and then their municipal needs would never get the sympathetic hearing they deserved!<sup>35</sup> Conversely, the rural districts were disturbed by the prospect of placing rural administrations—so intimately linked with agriculture—in the large

<sup>34</sup> *Municipal Yearbook*, 1943, p. 444.

<sup>35</sup> *Ibid.*, p. 441.



county boroughs where urban considerations might be expected to dominate. Moreover, so they argued, the prewar record of county boroughs did not warrant their taking over the administration of rural areas as well. The county boroughs will be involved in large problems of their own and the inevitable result would be "grave injustice to the rural communities." It is also alleged that the financial problem, the *bête noire* of post-war local government, will not be solved by lumping together rural areas. The county boroughs, around which the "lumping" is to take place, have heavy postwar burdens and can hardly be expected to view the clamor of its rural satellites with equanimity. Moreover the districts point out: "Necessary services for many rural areas will require special considerations and in certain cases financial assistance."<sup>36</sup>

In the second place, the single all-purpose authority would require delegation of duties, which is the very antithesis of the direct executive authority the district councils have enjoyed since the reforms of 1888 and 1894. "As the Rural District Councils must continue to play an important part in a democratic and contented regime they must be intrusted with a reasonably wide and comprehensive range of duties."<sup>37</sup> Thus by performing local duties only at the sufferance of the major authority which delegates them, these districts will have lost one of their most prized prerogatives. Moreover the 543 districts which have a population under 20,000 would not even have an elected Council but would be reduced to the ignominy of "district committees."

These protests against the various local plans for reconstruction carry considerable weight but much of it appears to be in the area of political science. Local government might be likened to a three-legged stool designed to stand on its own feet. The foregoing protests rest one leg on the theory of local government as a "school for democracy," and another leg on the administrative hazards of larger non-homogeneous areas. These arguments notwithstanding, a third leg—adequate resources—is necessary to give stability to the stool, and it does not appear that the district associations have offered any solution on this crucial if not decisive point. It is not likely that the local

<sup>36</sup> *Ibid.*, 1944, p. 451.

<sup>37</sup> *Ibid.*, p. 451.

government "stool" can support the weight that postwar services will place upon it, unless this third financial leg is able to hold up. The atomistic view of local government was sound so long as the so-called necessary services remained within the financial abilities of the local unit. As soon as the community desired services of a higher standard than it was able or willing to support, the third leg became troublesome. The district associations desire to continue in the pattern of 1888 and 1929 where the outline of independent local government was preserved by means of grants from various sources. In fact after fifty years of such support they have come to "regard grants out of the County Rate Fund as the right of rural Communities."<sup>38</sup>

It now appears, from the historical record of expanding local costs and from the official White Papers proposing to accelerate this expansion, local government has reached a fork in the road. To follow the pattern of 1888 and 1929 could be accomplished only by continually enlarging the stream of grants from the Exchequer with its inevitable concomitant of control.

The alternative to this pattern, to strain the analogy a little, is to discard the one-time self-sufficient stool and to erect a series of solid platforms. The traditional notion of independent local government is to plan responsibility close to the ground, where it is easily accessible and answerable to the local citizens. Local independence has always implied local responsibility, but the latter has been diminishing through fifty years with the increasing proportion of revenue derived from central grants. As the local government's obligation on the revenue side of the revenue-expenditure process continues to diminish, there must eventually be a corresponding diminution in the scope of its independence. Awareness of this handwriting on the wall has been brought home to local government associations as a result of the wartime experience with its plague of "circularitis," regionalism, and other limitations on the freedom and independence of local government. Hence, in an effort to stave off further diminution, the local associations propose to construct a series of local "platforms," each covering an area formerly occupied by numerous local "stools," some weak and some strong. The increased weight of postwar

<sup>38</sup> *Ibid.*, p. 451.

services will then be shifted from the small units of unequal strength to this new and drastically modified structure. This is equalization from the ground up in contrast with the old pattern which proceeded from the top down by means of Exchequer largess.

### EFFECTS OF BEVERIDGE PLAN

#### *Local Government*

No discussion of postwar reconstruction in local government would be complete without paying some attention to the famous Beveridge plan.<sup>39</sup> Its influence will be registered by an increase in the cost of some services and a decrease in the cost of others by transferring the latter to a central department.

Since local authorities are employers, their contributions to national insurance on behalf of personnel will rise much above the present rate. Thus the contribution for men will increase by 78 per cent and that for women by 66 per cent. The local government employer contribution will rise from 1s. 7d. to 2s. 7d. at 1938 prices or to 3s. 3d. at 1942 prices for each adult male in its employ.<sup>40</sup> Moreover, the number of fully covered individuals will be increased. Present categories of exceptions from National Insurance will be abolished, for example, civil servants, local government employers, and all non-manual workers getting more than £420 annually. Universal pensions under the plan may reduce if not eliminate present superannuation contributions, which saving may serve to offset some of the increased cost for insurance. On the other hand, demands for larger salaries and wages may come from employees who thus attempt to shift their own insurance contributions to the employer. Increased benefits for periods of unemployment may also have a general effect on wage levels.

As trading authorities the local governments will be paying larger income taxes to the central government to meet the total bill for insurance falling on the Exchequer. With estimated annual income of £40 million for the plan as against its estimated cost of £170 million, the difference of £130 million will have to be met from national taxation.

Finally it is in their capacity as public assistance authorities

<sup>39</sup> William Beveridge, *Social Insurance and Allied Services*, Cmd. 6404, 1942.

<sup>40</sup> *Local Government Finance*, Vol. 47, No. 1 (January, 1943), pp. 7-9.

that the local authorities will feel the principal changes wrought by the plan. The abolition of the Poor Law as administered by the local governments and the transfer of public assistance to the central government is a logical extension of policy along the same lines followed in recent years. The process of removing poor law functions from local authorities began as early as 1911 when the central government first entered the field of unemployment insurance. Political pressure for higher relief standards caused a continuing expansion of local expenditures up to 1927 when the issues came to a head. The "extravagant" Boards of Guardians were eliminated by the 1929 Act which transferred their functions to the county and county boroughs. The investigation of 1927-28 placed the blame for increased relief standards on the largess of local Boards of Guardians, whereas the real basis was the competition spurred on by Parliament between local governments in expenditures for all types of service, of which poor relief was only one. The initial result of the transfer was a reduction in relief spending, but it was a short lived economy.<sup>41</sup>

The data given below on domiciliary relief cover the total expenditures of all local authorities in England and Wales. The data are restricted to domiciliary relief since it is only this form of public assistance that the Beveridge Plan proposes to transfer to a central agency. The balance of local expenditures on the poor consists of institutional relief, which is expected to remain with the local authorities.<sup>42</sup>

DOMICILIARY RELIEF  
(Millions of Pounds)

1927-28.....	£17.3	1933-34.....	£18.6
28-29.....	15.5	34-35.....	20.7
29-30.....	14.7	35-36.....	22.4
30-31.....	13.2	36-37.....	22.2
31-32.....	14.3	37-38.....	19.1
32-33.....	17.2	38-39.....	20.3

The next step took place in 1934 when the Unemployment Act of that year transferred the responsibility for able-bodied unemployed to the National Government. This was not a

<sup>41</sup> *Municipal Journal*, Vol. 51, p. 1734 (December 17, 1943).

<sup>42</sup> J. R. and U. K. Hicks, Manchester Statistical Society, *Transactions*, Session 1942-43, p. 6.

financial windfall to local authorities, however, for they were required to contribute a sum equal to 60 per cent of their 1932 expenditure on those being transferred. This payment did not start until 1937 at which time it was absorbed in the block grant calculations for the new period. It amounted, in effect, to a reduction in the pool of Exchequer money that would otherwise have been distributed to the local governments.

The transfer process continued in 1940 with the Old Age Pensions Act, providing increased allowances for widows and aged and transferring responsibility to the central government. Here again, though Parliament assumed the lion's share of the added cost and the local authorities "saved" £4,250,000, they were required to contribute £1 million annually to the Exchequer, thus reducing the sum "saved" to £3,250,000. This contribution is also deducted from the block grant money before its distribution by the formula. This policy of contributions by local governments in general being deducted from the block grant does not spread the burden equally among all authorities. Since the richer authorities receive little or nothing from the block grant, they suffer little from the "contribution." In effect the "contribution" falls on those authorities which get the bulk of the block grant, and that means the poorer local governments. On the other hand, if they are the ones that "saved" most from the transfer, this method may achieve a rough justice.

Education and public assistance are the two costly services on which poor areas must spend relatively more than the wealthier authorities. During the period from 1936-37 to 1940-41, of all local expenditures falling on rates, elementary education averaged 15 per cent while public assistance (domiliary and institutional) accounted for 13 per cent. There are large equalizing grants for education from the Exchequer, which helps to reduce the burden, but there are no specific grants for public assistance. Rising relief standards urged by central departments placed a differential burden on the poor areas. First, even with identical needs, such authorities must levy higher rates in view of the paucity of their rateable value; and second, since the relief needs in these areas are often greater than in more prosperous communities, the result must be, *a fortiori*, a heavier burden. This is noted on the one hand

in higher rates and on the other, in curtailing standards of other services.

It appears then that public assistance is a major factor making for high rates in the poorer authorities. J. R. Hicks has made an interesting study, based on 83 county boroughs, which indicates the effect on average rate poundages and the dispersion around those averages of removing domiciliary relief from local budgets.<sup>48</sup> He used 1938 as a base year for comparison because by 1937 the final transfers of "able bodied" unemployed were completed, and the domiciliary relief in 1938 and subsequent years represents the charge left on local authorities. First, the average rate poundage in the county boroughs (1938) was 14s., but after removing an amount equal to domiciliary relief, the average would be reduced to 12s. Second, a sharp decrease in the dispersion of rate poundages around those averages will also follow the transfer.<sup>49</sup>

DOMICILIARY RELIEF AND RATE POUNDAGES  
IN COUNTY BOROUGHIS

Dispersion from Average Rate	Before Transfer	After Transfer
3s. ....	55	68
3s. and over ....	14	7
3s. and less ....	14	8
	83	83

That the number of county boroughs on the extreme ends of the rate dispersion will be reduced is also evident from these figures:

	Before Transfer	After Transfer
Over 4s. above average.....	10	2
Over 4s. below average.....	7	3

The effect on the administrative counties cannot be measured as neatly as in the case of county boroughs. Poor relief is a county responsibility and to that extent they would be benefitted by the transfer to the central government. But the cost of the relief is spread over the whole county (including non-county boroughs and districts) by a uniform poundage. Thus the average county rate for general purposes would be reduced, but the dispersion within the county would not be affected. In

<sup>48</sup> *Ibid.*, p. 6.

<sup>49</sup> *Ibid.*, p. 14.

the case of the London County Council, the dispersion ranges from 10s. 3d. in Westminster to 18s. in Poplar. This difference is not due to public assistance because the county pays the latter from a uniform rate on all metropolitan boroughs.

The third effect of this phase of the Beveridge Plan would be to reduce the total expenditures now being met by rates, or rather to shift such costs to general insurance contributions or central taxation. In 1938 all local authorities contributed £26 million to public assistance from rates and other revenues, and the plan envisages additional Exchequer expenditure which, at 1938 income levels, would itself amount to an addition of one shilling on the standard rate.<sup>45</sup>

The ultimate gain or loss to local authorities aside from their increased contributions as employers<sup>46</sup> will depend upon the amount of expenditures "saved" less any downward adjustment in their block grant from the Exchequer. That some such adjustment will take place is fairly certain, since the 1934 act and the 1940 act did not permit the local authorities to pocket the entire amount saved by transferring the service. The White Paper on Social Insurance simply states that "the introduction of the new scheme will involve a financial adjustment between the Exchequer and local rates" without indicating what the proportions will be.<sup>47</sup>

It was stated above that the Beveridge Plan, insofar as it involves transfer of public assistance to a central agency, would reduce both average rates and the dispersion about the averages. But it is possible that local authorities, instead of reducing rates, will choose to use the money for other services. In this case the burden upon ratepayers will not be alleviated, though the local authorities will enjoy a higher standard of service. Hicks is not alarmed at the prospect, for, in his view, "the object of social policy in the field of local government is not to produce a tidy table of rate poundages; it is to enable a reasonable standard of services to be maintained throughout the country while avoiding gross unfairness in the distribution of local taxation."<sup>48</sup> The problem, however, is a fundamental

<sup>45</sup> *Ibid.*, p. 10.

<sup>46</sup> Below, p. 164.

<sup>47</sup> *Social Insurance*, Cmd. 6550, September, 1944, par. 176.

<sup>48</sup> Hicks, *Transactions*, p. 17.

one in central-local fiscal relations and turns on the question: just what do local authorities want? Relief from rates? Or rising standards of services? If public assistance is nationalized, and the local savings used for other services, a new clamor will soon arise for central aid in relief of rates. Then as soon as such relief is forthcoming by the transfer of additional services or by grants, the local government expands right up to the hilt again. Moreover, if the expansion is directed toward grant-aided services, the burden on the Exchequer will be cumulative. First, it assumes the major cost of public assistance; second, it will have to increase its percentage grants to match the new local expenditures; and third, the block grant will subsequently be increased for it must cover 22½ per cent of total rate-borne expenditures. *The Economist*, for example, argues for the transfer of health services now and perhaps education at some later date so that the local authority, freed of these costly items, may concentrate its resources on the "remaining services."<sup>40</sup> In brief, the local authority will spend more and more on less and less, as the number of local functions shrinks and the area of local freedom withers away.

### *Block Grant Formula*

In addition to these changes in local government functions, brought about by the Beveridge Plan, certain consequences follow for the block grant formula. It will be recalled that of the five factors in the formula<sup>50</sup> unemployment and children under five were the two specifically designed to favor poor areas. The first factor, unemployment, will lose much of its meaning when public assistance has been fully transferred under the Beveridge Plan. Moreover, if the Government accepts full employment as a national policy and is successful in implementing it, this factor will be still less important as a measure of local need. On the other hand, leaving the unemployment factor in the formula would not distort the results too much since most areas with heavy unemployment are also the poorer authorities.

The second factor, children under five, was originally an index of poverty. But family allowance under the Beveridge Plan, that is, for second and subsequent children, pump spend-

<sup>40</sup> *The Economist*, January 1, 1944, p. 10.

<sup>50</sup> Above, p. 39.



ing power into these poor areas which they did not possess before. The changing birth rate and smaller total number of children lessens the range between local areas and further reduces the importance of children as a weighting factor for poverty.

The factor of rateable value was intended as an index of ability though it was constructed in such a way that every local authority, rich and poor, received some weight. Nonetheless, as the above two need factors diminish, rateable value becomes relatively more important. This is a doubtful gain in stress, first because of the continued lack of uniformity in valuation and second because per capita rateable value by itself is an unsatisfactory measure of local wealth. Furthermore, conditions of need have broadly changed during the war as when war production stimulated depressed areas while other regions were penalized by enemy action.

The other weighting factor, sparsity, indicates the need for consolidating local authority. County boroughs, in particular, might argue that with their reduced weight for unemployment the sparsity factor (which applies only to counties) should also be reduced. Else a disproportionate share of the pooled money might be allocated to the sparse counties.

In general, so far as the Beveridge Plan tends to reduce the differential between rich and poor, it operates as a broad equalizer of local resources and demands thereon. The permanently higher burden of central income taxation and the boundary adjustments that will undoubtedly follow from the reconstruction plans noted above, also serve to reduce these differences. As a consequence more subtle measures will be required if the block grant is to survive.<sup>51</sup>

Such measures would require improved statistics on people in the six population classes set up for purposes of the social insurance scheme: <sup>52</sup>

1. Employed persons
2. Others gainfully employed
3. Housewives
4. Other persons of working age
5. Children under 15
6. Persons above working age who have retired

<sup>51</sup> *Local Government Finance*, Vol. 47, No. 4 (April, 1943), p. 67.

<sup>52</sup> Cmd. 6550, p. 48.

A weighting factor geared to the number of old persons in the local authority might serve, and would reflect the higher proportions of retired in those declining areas where the younger and mobile persons move out. Next, since benefits under the plan go for all forms of interrupted earning—sickness, unemployment and old age—a weighting factor could be built on some ratio of local population and the number drawing benefits or pensions. Still other factors might be developed to measure differences in local expenditures which arise for reasons "external" to the local authority. One might be the trend of local expenditures relative to the rise or decline of population in an area, while another could be based on relations between density of population and per capita cost of urban services. Doubtless it was considerations of this type which led the Government to state that a complete overhaul of the central-local relations would consume several years in special studies.

#### COST OF RECONSTRUCTION TO LOCAL GOVERNMENT

##### *Health and Social Insurance*

To indicate the magnitude of the postwar burden which will be placed upon local authorities, attention may be directed briefly to two of the major innovations, social insurance and education. The third innovation, full employment, has wide repercussions on local authorities though not directly affecting rate poundages.

The estimated costs of social insurance were first set forth in 1942 in the Beveridge Report on *Social Insurance and Allied Services*.<sup>53</sup> Since then the estimates have been revised and were issued in 1944 in a White Paper which set forth the Government's proposals covering the whole field of social insurance.<sup>54</sup> The estimates compare the cost of existing services with those of the proposed plan for various years in the future.<sup>55</sup>

<sup>53</sup> Cmd. 6404, 1942.

<sup>54</sup> Cmd. 6550, 1944.

<sup>55</sup> *Ibid.*, p. 53.

## COST OF SOCIAL INSURANCE

(Millions of Pounds)

	Existing Schemes	Proposed Schemes			
		1945	1955	1965	1975
Contributions .....	£136	£283	£280	£275	£259
Interest .....	15	15	15	15	15
Exchequer and local rates	278	352	436	506	557
	£429	£650	£731	£796	£831

The immediate concern of local governments is the division of the cost between the Exchequer and the local authority and, on this delicate point, the Government has not yet committed itself.<sup>66</sup> The actuarial estimates, however, provide a clue for at least the first year. Of the £278 million now spent, about £75 million (or 27 per cent) falls on local rates and the balance on the Exchequer. This local share may be broken down into expenditures of £15 million on public assistance and £60 million on health services. Since the domiciliary portion of local public assistance is to be transferred to national assistance, some local contribution will be forthcoming in future years, the amount yet to be negotiated.

For the year 1945, assuming the various proposals had been enacted, it was estimated that £53 million, out of the total £352 million, would fall upon local government rates. While this is 15 per cent of the total, it is in lieu of local expenditures on certain health services only. If it be assumed that the local contribution in lieu of public assistance be set at 60 per cent (the fraction required in the transfer of able-bodied unemployed under the 1934 act) the additional cost to local authorities would be £9 million or a total of £62 million.

The net effect on local authorities may be seen from the following data on health expenditures in England and Wales in 1938-39.<sup>67</sup>

## LOCAL GOVERNMENT EXPENDITURES ON HEALTH SERVICES 1938-39

(Millions of Pounds)

Services to be transferred:

1. Mental hospitals .....	£12.3
2. Infectious disease hospitals .....	4.2
3. Other hospitals and institutions .....	14.6
4. Tuberculosis services .....	4.6
	£35.7

<sup>66</sup> *Ibid.*, p. 39.<sup>67</sup> Cmd. 6502, p. 81-84.

## Services retained:

1. Maternity and child welfare	
2. Venereal disease	
3. Midwives	
4. All clinics except Tuberculosis and Mental	4.6

Total Expenditures	£40.3
--------------------	-------

These changes will be handled as follows under the new plan:

Joint Health Authorities (transferred services)....	£70.0	
Retained Services to be expanded	22.0	
		£92.0

## Less Exchequer grants:

a. To Joint Health Authorities	£28.4	
b. To retained services	8.0	36.4

Total rate borne expenditures	£55.6
-------------------------------	-------

It would appear that rates will be relieved by about £35.7 million which is the rate-borne portion of those health services that are now to be covered by national schemes. Against this relief, the local authority will have to contribute £53 million or 15 per cent of the estimated cost in the first year of reform. This leaves a net increase on the rate burden of £17.3 million in the *first year* for health services.

To this amount must be added the local contribution in lieu of public assistance yet to be negotiated. If it be assumed that 60 per cent, the portion required in the transfer of able bodied unemployed under the 1934 Act, will also be required in this case, the local contribution will be about £9 million. That is to say, 60 per cent of local domiciliary relief of £15 million is £9 million leaving local authorities with a "saving" of £6 million. As a result of the transfer, the net increase in local burden resulting from social insurance may then be summarized as follows:

## Local Governments' share of costs:

	(Millions of Pounds)		
Joint Health Authorities	£70.0		
Less—"savings"	£35.7		
—New grants	28.4	64.1	£ 5.9
Retained Services	22.0		
Less—original outlays	4.6		
—New grants	8.0	12.6	9.4
Added burden on rates due to health:			£15.3
Public Assistance Contribution (est.)			9.0
Total New Burden on Rates			£24.3

Thus it may be stated that the social insurance scheme as currently outlined would add £24.3 million to the rate burden of local government which is 10 per cent of the total rate-borne expenditure in the last peace year, 1938-39. This will be partially, if not largely, offset by the Exchequer agreeing to pay one-half of the new health burden with another grant in amount of £7.6 million and, of course, the local authorities will be relieved of their present outlays on domiciliary relief, amounting to £15.0 million.

On the other hand, this does not include additional costs of administration as a result of larger contributions in its capacity as an employer. Moreover, it is only the cost for the *first year* of the reform, and by 1975 the total cost to be shared by central and local governments rises to £557 million, exactly double the expenditure on existing schemes.

### *Education*

The second major innovation in the way of postwar reforms concerns education and it presents burdens for local authorities that fully equal those laid upon them by the social insurance scheme. Preliminary discussions on the reform of education were consolidated in a White Paper as early as 1943,<sup>68</sup> and by 1944 the major proposals were enacted by Parliament.<sup>69</sup>

The estimates of cost as contained in the White Paper are given in the following data.<sup>70</sup>

COST OF EDUCATION (Millions of Pounds)			
Before reforms:			
Year			
1938-39	Total	Exchequer	Rates
(a) Actual .....	£ 93.8	£ 45.5	£48.3
(b) Adjusted to postwar costs .....	123.0	66.5	56.5
After reforms:			
First year .....	124.1	70.8	53.3
Seventh year .....	163.1	95.5	67.6
Ultimately			
(a) Original estimate .....	190.4	110.5	79.9
(b) Revised estimate .....	203.2	115.1	88.1

<sup>68</sup> Board of Education, *Educational Reconstruction*, Cmd. 6458, 1943.

<sup>69</sup> 7 & 8 Geo. VI, c. 31, Education Act, 1944.

<sup>70</sup> Cmd. 6458, 1943, p. 35.

The adjustment of 1938-39 expenditures to provide an "unreformed" base

The estimates were raised a little by the time the proposals were embodied in a bill before Parliament in January, 1944. Thus a correction factor of 20 per cent for costs in the post-war period was used instead of 15 per cent to arrive at a base year. The total cost in the ultimate year was also raised from £190.4 million to £203.2 million, which brought the ultimate rate burden to £88.1 million.<sup>61</sup>

To ease the blow a trifle, the main education grants were to be raised to 52 per cent in 1945-46, the first reform year and by degrees to a maximum of 55 per cent in the fourth year, 1948-49. In addition to the main grants, additional Exchequer money would be available to the poorest areas together with grants at special rates for the school meals and milk. In brief, even allowing for the added Exchequer aid, the total additional burden on rates will rise to £60 million in 1947-48 and £88 million when the reforms are fully installed. Therefore, by the end of the next three years, local rates must produce £13 million more than in 1940-41, while the net increase will eventually be £40 million—an increase of 83 per cent over pre-war levels! In the absence of any substantial increments in rateable value, local rates, already at the straining point, will increase 16 per cent, or about 3 shillings in the pound for *education alone*.

It is no wonder that local associations, faced with such changes in projected rate burdens, are proposing drastic measures of local reconstruction. The centralizing trend continues in this field too for counties, and county boroughs will be the new education authorities. When the education plan was up for Parliamentary review, vain attempts were made to shift more of the cost to the Exchequer by reducing the local governments' share from 45 to 30 per cent. Already local government observers are suggesting that without some such drastic changes in the over-all financial scheme the educational reforms will never be achieved.<sup>62</sup> The poorer authority will seek loopholes and the central departments will have no recourse but to be

year under postwar conditions involved two factors: an increase of 15 per cent to cover the wartime rise in costs and £15 million for meals and milk to school children.

<sup>61</sup> *Local Government Finance*, Vol. 48, No. 2 (February, 1944), p. 32.

<sup>62</sup> *Ibid.*, Vol. 47, No. 9 (September, 1943), p. 162.

lenient. Financial incapacity makes "necessary" policies merely permissive in spite of Parliament's present insistence on minimum standards for all children and all areas.<sup>63</sup>

Finally the burden on the Exchequer of this educational reform may be noted. In the year 1938-39 the central government's total budget was £1,027 million which included £231 million in net transfers to other public authorities, that is, grants in aid.<sup>64</sup> As the table of estimated costs has indicated, the Exchequer will furnish an additional £70 million, which is the difference between the 1938-39 prewar grants of £45 million and the ultimate outlay of £115 million. This means an increase of about 7 per cent in the prewar national budget for education alone.

The magnitude of the increased burdens placed upon the taxpayer and the ratepayer by these two major innovations is indicated in the following summary figures:

INCREASE IN EXPENDITURE OVER 1938-39 (Millions of Pounds)		
	Local Rate	National Taxes
Health .....	£15	£255
Education .....	40	70
	<hr/>	<hr/>
	£55	£325
Percentage increase in total expenditure ..	35%	31%

Thus the increased burden on local governments will have reached the staggering figure of 35 per cent over total rate-borne expenditures in 1938-39. In the light of this program it is easy to understand the sardonic comment of one local government observer when he said, "Half a crown in the pound for education; six pence for health; what next?"<sup>65</sup>

<sup>63</sup> *The Economist*, February, 12, 1944, p. 208.

<sup>64</sup> Cmd. 6623, 1945, p. 47.

<sup>65</sup> *Local Government Finance*, Vol. 48, No. 4 (April, 1944), p. 70.

## CHAPTER IX

### EVALUATION OF LOCAL GOVERNMENT ACT, 1929

The Local Government Act of 1929 has now been in operation for fifteen years. In that span of time a wide variety of conditions has prevailed, including depression and prosperity and the exhausting ordeal of a six-year war. These years have yielded enough experience to judge the act with respect to the objectives professed in the White Papers and discussions in 1929 and 1937. As noted at the outset of this investigation primary interest was centered on the fiscal objectives rather than the administrative reforms achieved by boundary revision or the consolidation of some local authorities.

In general, the 1929 Act was an extension of the same principles governing central-local relations that had been developing gradually since the Local Government Act, 1888. Thus the consolidation of small local governments, boundary revisions, and the wider application of derating all fitted in the familiar pattern of the preceding forty years. The only innovation of any consequence to central-local relations was the block grant device which was designed, first, to bring central aid more in proportion to local needs; second, to stimulate local authorities to some kind of economy, and third to minimize the interference of the central departments. To what extent have these objectives been achieved?

#### OBJECTIVES OF BLOCK GRANT

The block grant, from its inception up to the war years, has been maintained as a fairly constant proportion of total grants to local governments. As the data below indicate, the block grant has accounted for roughly one-third of all central grants toward rate-borne expenditures.



BLOCK GRANTS AND TOTAL REVENUE GRANTS FOR ALL LOCAL AUTHORITIES,  
ENGLAND AND WALES <sup>1</sup>

	(Millions of pounds)		
	Block Grant	Total Grants	Ratio
1930-31	£44.8	£130.2	34%
31-32	44.9	126.5	35
32-33	44.9	120.5	37
33-34	45.3	121.6	37
34-35	45.4	125.0	36
35-36	45.3	132.9	34
36-37	45.3	135.6	33
37-38	47.3	136.1	35
38-39	47.2	140.2	34
39-40	47.2	181.9	26
40-41	46.5	226.0	21

The sharp drop in the last two years occurred because specific grants for civil defense and emergency services had swollen the grant account while the General Exchequer Contribution, of course, had not altered.

It may also be noted that total grants, including the General Exchequer Contribution, provided a relatively constant share of the local governments' total income for rate fund services. By restricting the comparison to these rate fund services, revenues or expenditures arising from trading establishments or fees and recoupments from various services are excluded. In other words, central grants are viewed as subsidies in relief of rates and as the following data indicate, such grants provide somewhat less than half of the total rate fund income.

GRANTS AND RATE INCOMES FOR ALL LOCAL AUTHORITIES,  
ENGLAND AND WALES <sup>2</sup>

	(Millions of pounds)			
	Income From Rates	Income From Grants	Total	Ratio Grants To Total
1930-31	£149.9	£130.2	£280.1	46.4%
31-32	148.3	126.5	274.8	46.0
32-33	146.3	120.5	266.8	45.1
33-34	148.6	121.6	270.2	45.0
34-35	154.8	125.0	279.8	44.7
35-36	164.9	132.9	297.9	44.6
36-37	172.8	135.5	308.4	44.0
37-38	177.3	136.1	313.4	43.4
38-39	191.4	140.2	331.6	42.2
39-40	201.3	181.9	383.2	47.5
40-41	203.9	226.0	429.9	52.6

<sup>1</sup> *Statistical Abstract for the United Kingdom*, 82d Nbr., Cmd. 5903, pp. 228 and 232; *Municipal Yearbook*, 1945, p. 24.

<sup>2</sup> *Ibid.*, p. 24.

Here again the years 1939-41 involve wartime grants which disrupt the pattern. Setting aside these two war years, it will be noted that, for rate fund services, the proportion of local income furnished by grants steadily declines from 46.4 per cent in 1930-31 to 42.2 per cent in 1938-39, the last peace year. Thus it appears that as local expenditures expanded through the period of the thirties, grants did not keep pace with the spending. The lion's share of the cost of these expanded services thus falls, as perhaps it should, upon the ratepayers in the localities where said services are consumed.

The extent of this development is shown more sharply by a comparison of actual data rather than percentage figures at the beginning and again at the end of the decade. These data are in millions of pounds: <sup>a</sup>

	Total Grants	Expenditure Falling On Rates
1930-31	£130.2	£142.0
1938-39	140.2	191.9

Thus while total grants, including the General Exchequer Contribution, increased by exactly £10 million the expenditures left on rates increased by fully £50 million. In other words, expenditures on ordinary rate fund services increased £60 million of which £10 million was off-set by grants and £50 million fell upon the rates. Thus rate burdens increased 35 per cent over 1930-31, whereas the block grant increased about 5 per cent and total grants about 8 per cent. In the aggregate, therefore, it would seem that the first objective of the Local Government Act, 1929—to bring central aid more in proportion to local needs—has not been achieved by a substantial margin. Moreover this year 1938-39 was the second year of the third fixed grant period, and the formula had just been recalculated. Hence the discrepancy cannot be attributed to a lag in applying the formula, or to postponement of its recalculation due to the war, as occurred in 1941.

The above conclusions are based upon over-all data for all local authorities in England and Wales. Perhaps the proposed objectives would be recognized as achieved if attention were directed to the behavior of specific local authorities. That is to say, what evidence can be drawn, first from the dispersion

<sup>a</sup> *Ibid.*, p. 24.

of rate poundage, and second from the equalizing effects of the block grants? On the matter of rate poundages comparisons may be made between the years 1928-29 and 1931-32, as representing the dispersion before and after the Local Government Act, 1929, was enacted. It will suffice to present data on local authorities at the level of non-county boroughs and urban districts to show a wide shift between these years.<sup>4</sup>

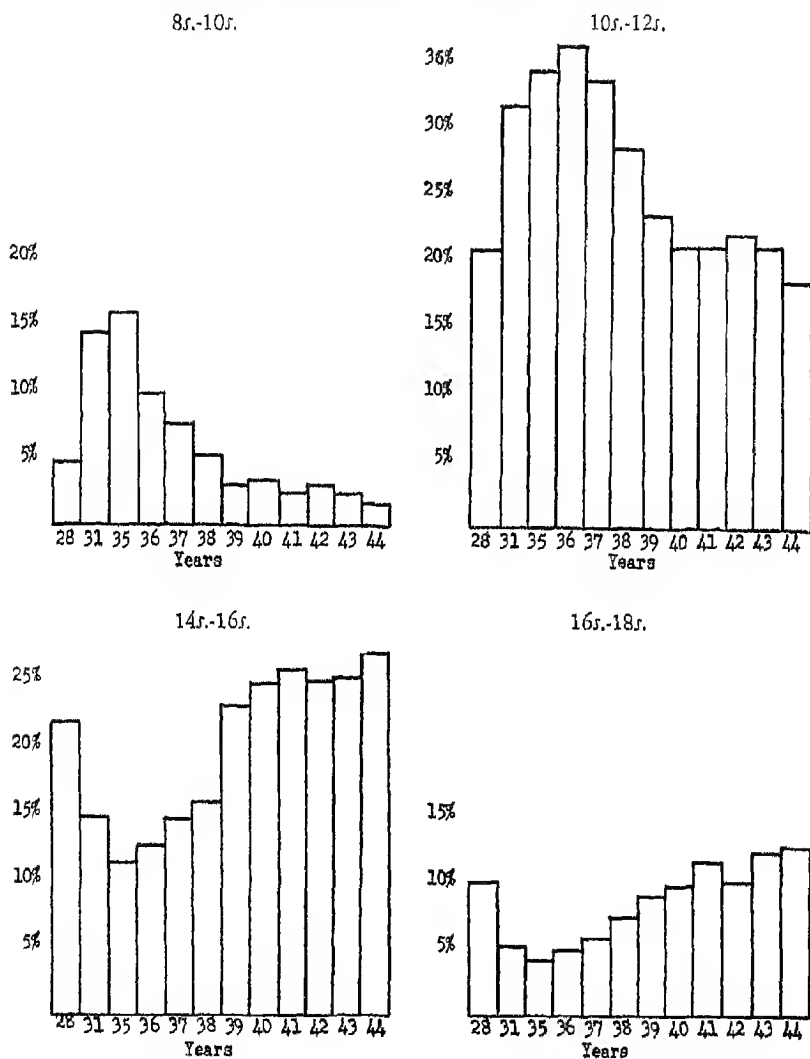
DISPERSION OF RATE POUNDAGES BEFORE AND AFTER LOCAL GOVERNMENT ACT 1929: NON-COUNTY BOROUGH AND URBAN DISTRICTS

	1928-29		1931-32	
	Number	Percentage	Number	Percentage
6s.-8s.	0	0%	11	1%
8s.-10s.	49	5	148	15
10s.-12s.	213	21	351	35
12s.-14s.	324	31	223	23
14s.-16s.	229	22	154	16
16s.-18s.	108	10	55	6
18s.-20s.	44	4	24	2
Over 20s.	70	7	19	2
	<hr/> 1037		<hr/> 985	

The enactment of the block grant thus brought a downward shift in the entire distribution so that 51 per cent of the local authorities in this group had rate poundages of less than 12s. in contrast with 26 per cent before the act. The open-end class precludes the calculation of the standard deviation for either distribution but it is evident from inspection that the total dispersion around the mean is substantially reduced. The quartile deviation was reduced from 31.0*d.* to 21.5*d.* It must be concluded, therefore, that the immediate effect of the block grant was to reduce the wide variation which existed between local government rate poundages. The question, however, cannot be left there, for virtually all of this gain achieved by the block grant was soon dissipated. The rapid rise in local expenditures unaided by grants so increased rate burdens that by the end of the thirties the variation in rate poundages was about as great as it had been in 1928. In brief, local governments were right back where they started as the chart below will indicate.

<sup>4</sup> James Lythgoe, "Incidence of Local Rates," Manchester Statistical Society, *Transactions*, Session 1932-33, p. 181.

CHART I

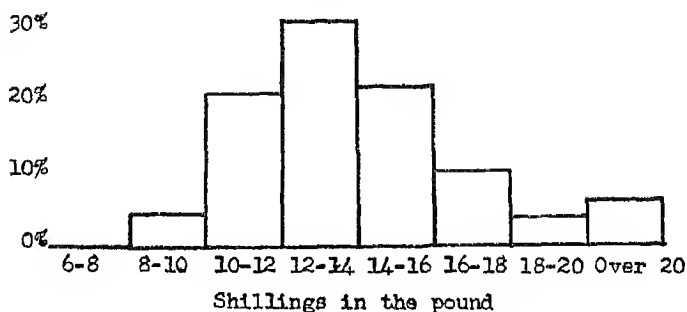
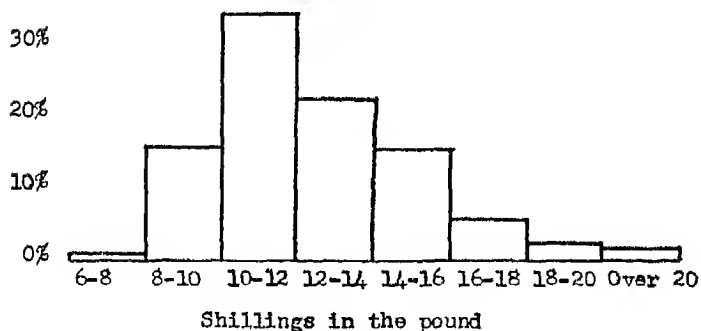
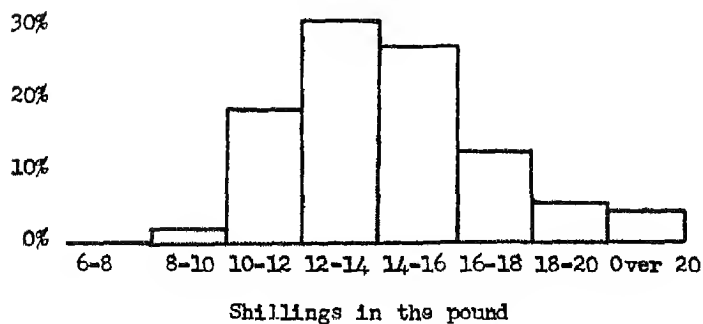
DISPERSION OF RATE POUNDAGES IN NON-COUNTY BOROUGHES AND  
URBAN DISTRICTS BEFORE AND AFTER 1929 REFORM.

For the period 1928-29 to 1944-45 Chart I gives the proportions of non-county boroughs and urban districts that fell into four classes of rate poundages. It will be observed that for the first two classes below the average, 8s.-10s. and 10s.-12s., the percentage rises sharply until 1935-36 and then declines steadily under the weight of increased rate fund expenditures. For the first two classes above the average, 14s.-16s. and 16s.-18s., the percentage drops until 1935; thereupon it rises until at the last year there are substantially more local authorities laboring under these higher rate poundages than in 1928-29. A similar impression is obtained from Chart II which compares the proportions in each class at the beginning and the end of this fifteen year period in which the block grant has been operating.

The second objective of the block grant was presumably to stimulate some degree of economy in local expenditures. As noted in earlier chapters considerable criticism was directed at specific grants of the percentage type which had led the local authorities to expand their outlays in the hope of attracting larger and larger grants. Now with certain of these grants withdrawn and replaced by a lump sum allotment, it was expected local "extravagance" would be curtailed. Should the expansion continue, the additional costs would fall wholly on rates, and the central departments counted on popular opposition to restrain such developments, at least for rate fund services. It proved to be a vain hope, however, for expenditures continued to rise throughout the period.

The inexorable rise in local expenditures may be noted for the principal services by comparing the amounts to 1928-29 as a base year. This year is usually regarded as the last full year before the 1929 reforms were installed, and was so used in the above discussion on dispersion of rate poundages. Data are for gross expenditure, including that met out of specific grants, and net expenditure, being met from rates plus the block grant. In this way it may be observed whether the grants increased proportionately with the rate-borne share of local cost. The first and last years are given below while complete data for all years are left to the appendix.

## CHART II

DISPERSION OF RATE POUNDAGES IN NON-COUNTY BOROUGHs AND  
URBAN DISTRICTS FOR SLECTED YEARS.1928-19291931-19321944-1945

INDEX OF GROWTH IN LOCAL EXPENDITURES FOR SELECTED YEARS  
(1928-29 = 100)

	1932-33	1938-39	1940-41
Elementary Education			
a. Total Expenditure . . . . .	100	118	118
b. Rate Borne . . . . .	112	136	132
Higher Education			
a. Total Expenditure . . . . .	109	142	137
b. Rate Borne . . . . .	110	148	138
Public Health			
a. Total Expenditure . . . . .	124	175	173
b. Rate Borne . . . . .	140	196	190
Mental Deficiency			
a. Total Expenditure . . . . .	111	151	160
b. Rate Borne . . . . .	140	192	199
Poor Relief			
a. Total Expenditure . . . . .	98	106	93
b. Rate Borne . . . . .	102	109	95
Highways and Bridges			
a. Total Expenditure . . . . .	98	106	82
b. Rate Borne . . . . .	104	112	90
Police			
a. Total Expenditure . . . . .	101	122	159
b. Rate Borne . . . . .	105	134	143

The intermediate year 1938-39 is also included since it represents the last peace year and indicates the level to which services had expanded before war time economies or shifts occurred.

A perusal of these summary indexes indicates that the level of spending (to 1938-39) had increased from 9 per cent in poor relief to 96 per cent in health. Since most of the poor relief cost had been shifted to the Exchequer by 1938-39, that increase is not representative of the expansion in the major services. In brief, health expenditures had about doubled in the ten year period, elementary education and police increased about one-third, and higher education about one-half. Of these increases, what was the increment falling on rates?

PROPORTION OF INCREASE FALLING ON RATES PLUS BLOCK GRANT

Elementary Education . . . . .	78%
Higher Education . . . . .	44
Public Health . . . . .	95
Mental Deficiency . . . . .	107
Police . . . . .	34

It would appear from these data that while the block grant did not produce a local taste for economy it did place the greater

portion of the expanded cost upon the ratepayers. Needless to say, local government associations held up this situation as an "inherent defect of the 1929 Act in applying an inelastic form of Exchequer aid to a rapidly expanding volume of local expenditures."<sup>5</sup> To their view local government is a dynamic organization, continually stimulated by Parliamentary pressures to expand services, yet receiving Exchequer grants which are static. Much of the opposition to the block grant comes from these local expansionists who feel they are "standing still" when the Exchequer does not contribute increasing amounts. Yet it is difficult to see how an increase of 100 per cent in 10 years for one service alone, for example health, can be construed as standing still!

Because of this rigidity in the block grant it is probable that local associations will oppose its extension in principle to specific services such as education, police, or health. In fact new grant legislation during the thirties suggests a gradual trend away from the block grant principle. Thus the Midwives Act, 1936, and the Cancer Act, 1939, revert to percentage grants, while a further departure is noted in the Rushcliffe Report on Nurses Salaries<sup>6</sup> recommending grants of one-half the additional expenditure. The central-local grant relations are moving back to the tangled complexities which existed prior to the 1929 Act.<sup>7</sup>

The third objective propounded for the block grant in 1929 was to minimize the interference of the central government in the administration of local services. Having just emerged from the exigencies of wartime operations with its close supervision of services and expenditures by central departments, the local governments are acutely aware of this problem. The situation during the decade of the thirties remained fairly stable so that by 1938-39 specific grants for rate-fund services amounted to 28 per cent of total income from rates and grants. If the General Exchequer Contribution be added, the central contribution rises to 42 per cent, but since this grant is a lump sum payment, with no strings attached, it may be excluded in estimating the ratio. The wide expansion of services planned

<sup>5</sup> *Local Government Finance*, Vol. 48, No. 4 (April, 1944), p. 71.

<sup>6</sup> *Nurses' Salaries Committee*, Cmd. 6424, 1943.

<sup>7</sup> *Local Government Finance*, Vol. 47, No. 4 (April, 1943), p. 74.



for the postwar period poses the question of central control, for it seems inevitable that this proportion of local income from the Exchequer will rise sharply. The result will be a gradual diminution in the area of freedom for local authorities. Since objections to the block grant are widespread, on the ground of its rigidity in the face of increased expenditures, it may be that the postwar period will bring a return to the elastic percentage grants, as noted earlier.

The reconstruction is already going forward on a piecemeal basis, taking one service at a time with *ad hoc* grants and much bargaining as to the degree of central control. The local governments have been hearty in their condemnation of this practice but the lure of Exchequer money has been irresistible. Proponents of local government in Parliament point to the "great disquietude in various parts of the country because people feel that the administration may be taken away from those in close touch with local affairs and handed to someone who is farther off." <sup>8</sup> Yet as *The Economist* points out, demand for larger grants from the Exchequer is short-sighted, for the eventual result is curtailment of freedom of action. Such a high proportion of local officials are already under central directives and supervision that the Number One postwar problem is the division of tasks and costs between central and local governments. It is of no avail for local governments to argue in Parliament: "We want staff. We want money. We want power. What we get out of the Ministry of Health is talk and circulars and no end of sympathy." <sup>9</sup>

In advancing its solution to the local government dilemma, *The Economist* urges the transfer of certain major services to the national government.<sup>10</sup> In choosing a major service to be transferred, it settles on health rather than education. It does so on the ground, first, that standards of service are easier to measure objectively in health and medicine, hence it is better adapted for central control; second, while variety in method is good for both services, it is probably more essential in education; and finally, the teachers are accustomed to the operations of local authorities while doctors are not! <sup>11</sup> Admittedly the

<sup>8</sup> *Parliamentary Debates*, Vol. 395, p. 1128 (December 9, 1943).

<sup>9</sup> *Ibid.*, p. 863 (December 7, 1943).

<sup>10</sup> *The Economist*, April 22, 1944, p. 525.

<sup>11</sup> *Ibid.*, October 2, 1945, p. 452.

local authorities will lose some of their responsibility, but, argues *The Economist*, they have got to lose something or they will not maintain democratic control in any sphere.

Proposals for nationalizing some major services in order to relieve pressure on those left in the hands of local authorities is generally rejected by local associations as a temporary solution to a recurring difficulty. The only other alternative in their view is increased grants. Here they have no objection if the expanded grants are of the block type, to avoid further curtailing of local freedom. The block grant has evidently been successful enough in minimizing central interference that some local associations now argue the rationalization of specific grants into a general block grant. The local governments would then retain control subject to some central supervision of the maintenance of minimum standards. The over-all block grant could be distributed according to local needs as measured by the formula, provided each authority were rating itself to capacity and with some uniformity of valuation. Such changes proceed on the assumption that it is in the citizen's best interests for local services to be administered by local people whom he knows and elects.<sup>12</sup>

Before proceeding to the most recent postwar development in the system, it may be well to recapitulate the conclusions of fifteen years on the original block grant objectives. First, it succeeded in reducing the wide dispersion of rate poundages and increased the equalization between local authorities. These initial gains were lost with the expansion in local expenditures, and at the outbreak of the war rate burdens were back to 1928-29 levels. Second, block grants were of no use in stimulating economy and they were derided as "static" and "rigid" in the face of the spending boom. Third, block grants did succeed in minimizing central interference, and this consideration seems to have outweighed the local objections on the ground of inflexibility. It is better to have an inflexible grant with freedom of action than flexible subsidies liberally hedged with central controls.

<sup>12</sup> *Local Government Finance*, Vol. 48, No. 6 (June, 1944), p. 106.

## POSTWAR REVISION

In order to judge the immediate effect of the first postwar alteration in the block grant system, some attention may be given briefly to the situation that existed just before the war broke out.

The last full review of the block grant formula occurred at the close of the second fixed grant period in 1936-37. In that year the General Exchequer Contribution consisted of the following sums:<sup>13</sup>

Loss on account rates.....	£22,292,203
Loss on account grants .....	16,279,706
New money .....	5,350,000

£43,921,909

To this sum was added an additional Exchequer grant of £463,697 and a supplementary Exchequer grant of £880,741, the latter sum being reduced one-fifteenth each year from 1935. The total amount distributed was £45,266,347.

At the outset of the third fixed grant period, which was to run for five years until 1942, several changes in the formula were made.<sup>14</sup> The new calculation yielded the sum of £48,349,000 as the minimum grant for the ensuing period, which was an increase of 10 per cent or £4,427,000 over the second grant period. But following the central-local policy discussed in earlier chapters, the transfer of the cost of services from local budgets to the Exchequer required some adjustment or "contribution" from local authorities. Accordingly the sum of £2,187,000 was deducted from the pool as the local share of unemployment assistance, which was 60 per cent of the local cost in 1932-33. Another deduction of £133,000 was made for the cost of trunk roads assumed by the central department, and an addition of £115,000 was made to compensate local authorities for dropping certain license duties on male servants. The net effect of these deductions was to reduce the formula increase from £4,427,000 to about £2,222,000, and the Exchequer finally settled by adding £2,250,000 of "new money" to the pool for the third grant period.

<sup>13</sup> Ministry of Health, *Eighteenth Annual Report*, 1936-37, p. 166.

<sup>14</sup> Above, p. 47.

Each year of this period from 1937 to 1942 a deduction was made in the amount of £100,423 to cover deficiencies in county apportionment. That is to say, the Exchequer makes up these deficiencies to the respective counties and the total so paid is deducted from the pool.<sup>15</sup> For 1940-41 another sum of £644,000 (in 1941-42 and subsequent years it went to £1,000,000) was deducted as the local contribution toward the transfer of another relief burden to the central government.<sup>16</sup>

The amount of the Exchequer contribution to local governments in the third grant period was as follows: <sup>17</sup>

Loss on account rates .....	£22,292,203
Loss on account grants.....	16,279,706
New money . . . . .	7,600,000
	<hr/>
	£46,171,909

To this sum would be added an additional Exchequer grant and also a supplementary Exchequer grant, the amounts of each varying for specific years. For the third grant period, 1937-38, those sums were:

General Exchequer Contribution.....	£46,172,000
Additional grant .....	394,789
Supplementary grant .....	807,305
	<hr/>
	£47,374,094

From this total must be deducted the sum of £100,423 representing deficiency grants to the counties of Middlesex (£76,000) and Surrey (£24,423). Thus the net amount of the pool available for distribution was £47,273,671.

During the third grant period this sum was first used to reimburse 50 per cent of losses on account of rates and grants in the counties and county boroughs, while the amount remaining was allocated on the basis of the formula.

The General Exchequer Contribution for the subsequent years was as follows:

<sup>15</sup> 1 Edw. VIII and 1 Geo. VI, c. 22, s. 3, Local Government (Financial Provisions) Act, 1937.

<sup>16</sup> 3 & 4 Geo. VI, c. 13, Old Age and Widows Pension Act, 1940.

<sup>17</sup> Ministry of Health, *Nineteenth Annual Report*, 1937-38, p. 157.

		(Thousands of Pounds)			
	G. E. C.	Additional Grant	Supplementary Grant	Deduct Contribution	Net Pool
1937-38 <sup>b</sup>	46,172	395	807	100	47,274
1938-39 <sup>b</sup>	46,172	397	737	100	47,206
1939-40	46,172	410	720	100	47,202
1940-41	46,172	409	623	747	46,457
1941-42	46,172	399	557	1,103	46,025
1942-43	46,172	397	552	1,103	46,018
1943-44	46,172	397	552	1,103	46,018
1944-45	46,172	397	552	1,103	46,018

<sup>a</sup> Actual data from Ministry of Health *Annual Reports*. Later years from *Civil Estimates* Class IX.

It will be noted that the grants were frozen as of 1941-42 and continued through the war years without alteration.<sup>18</sup>

When the third fixed grant period drew to a close in 1941-42 the local associations were unanimous in their position that conditions under wartime were not representative of local government generally. The postponement of the recalculation of the formula was then quickly agreed upon. Wartime conditions were no criteria of peacetime needs as large shifts in the basic element, population, had occurred in evacuation areas and in centers of war industry. Likewise depressed areas that had been laboring with chronic unemployment would be adversely affected for they were then enjoying the short-lived benefits of war prosperity. The General Exchequer Contribution as a long range instrument was not adaptable to temporary war situations. Meanwhile, no adjustment had been made since 1937-38 and then as the basis of data for 1935-36, the penultimate year of the second grant period. Thus the present General Exchequer Contribution is being distributed on the basis of conditions that existed in local authorities ten years ago!

With the close of hostilities in 1945, the Ministry of Health took immediate steps to remedy the situation without attempting a complete revision of the formula.

It will be recalled that the 1937 act required the General Exchequer Contribution to equal at least 22.5 per cent of total local expenditures to be met from rates plus block grant. In the past ten years expenditures have risen steadily while the General Exchequer Contribution remained fixed. Had the

<sup>18</sup> Above, p. 82.

formula been recalculated in 1942 the local authorities would have received a substantial increase in the block grant, and as a consequence of its postponement they have been getting less than they are entitled to receive under the 1929 act. Moreover, argued the Ministry of Health, "the end of the war means that the expenditure of local authorities will start rising again."<sup>10</sup> As if it had ever stopped!

The plan proposed by the Government and recently enacted by Parliament was to provide an "interim supplementary Exchequer contribution" for the period April 1, 1945, to March 31, 1948.<sup>20</sup> This extra grant will be made from Exchequer money in the following amounts:

1945-46.....	£10,000,000
1946-47.....	11,000,000
1947-48.....	12,000,000

and apportioned between counties and county boroughs according to a formula. The new money will be distributed in such a way that it will end up in the hands of the poorest authorities. The scheme is to take the product of an 8*d.* rate for the whole country in each of three base years: 1942-43 for the first year's grant, 1943-44 for the second year, and 1944-45 for the third year.

With respect to the first year, 1945-46, the grant is £10 million and the product of a national 8*d.* rate would be £9,280,000. This 8*d.* product refers to the cash actually collected if a levy of 8*d.* on the pound were made on all rateable value in England and Wales. Adding these items gives a total of £19,280,000 which amount is then allocated to every county and county borough in proportion to their 1942-43 expenditure. These expenditures will include those met from (1) rates, (2) from block grant, and (3) from wartime advances to distressed areas. The proportion of a county's expenditure to the total for England and Wales is the proportion of the £19,280,000 that said county may expect to receive. But since only £10 million, and not £19,280,000, is being distributed, the local government must first deduct the product of an 8*d.* rate on its own rateable value to ascertain the amount of grant it will actually receive.

<sup>10</sup> *Local Government Bill No. 38, 1945.*

<sup>20</sup> 9 & 10 Geo. VI, c. 24, Local Government (Financial Provisions) Act, 1946.

In other words the scheme operates by first adding an 8*d.* rate aggregate to the total grant and then having each local authority subtract the share of the 8*d.* product attributable to its rateable value. If a local government accounted for 1 per cent of total expenditure it would have a gross grant of £192,800. If it also accounted for 1 per cent of the cash product it would deduct £92,800 and receive the difference of £100,000. Now if it were a rich community and possessed, say, 2 per cent of the total rateable value and cash product it would deduct £185,600 and receive the difference of £7,200 as its interim grant.

This formula might be expressed as follows:

For any local authority let  
 $x$  = expenditure in base year  
 $y$  = cash product in base year  
 $G$  = interim grant

Thus

$\Sigma x$  = total expenditure (England & Wales) base year  
 $\Sigma y$  = total cash product (England & Wales) base year  
 $\Sigma G$  = total interim grant

Thus

$$\frac{x}{\Sigma x} (\Sigma G + \Sigma y) - y = G$$

The formula is admittedly a crude one, measuring need by the volume of expenditure and ability by the cash product of a penny rate. But it does result in sharp equalization as between the rich and poor local authorities.

If the entire £10 million were distributed uniformly, it would lower all rates 8½*d.* But by the device of giving to each according to its need (expenditure) and subtracting from each according to its ability (cash product), most of the £10 million goes to the poorer authorities.

This may be noted by observing local governments on the extreme ends of the range.<sup>21</sup>

Rich	Rate Poundage		Interim Grant per Pound
Bournemouth .....	9 <i>s.</i>		½ <i>d.</i>
Blackpool .....	11 <i>s.</i>		1½ <i>d.</i>
Surrey (County) .....	11 <i>s.</i>	2 <i>d.</i>	3 <i>d.</i>
Poor			
Merthyr Tydfil .....	29 <i>s.</i>		2 <i>s.</i> 9 <i>d.</i>
West Ham . . . . .	21 <i>s.</i>	6 <i>d.</i>	1 <i>s.</i> 9 <i>d.</i>
Carmarthen (County) ...	19 <i>s.</i>	1 <i>d.</i>	2 <i>s.</i> 1 <i>d.</i>

<sup>21</sup> *Local Government Bill* No. 38, 1945.

Similar results will obtain for the other two years. Thus for 1946-47 it is £11 million grant plus the cash product of a 9*d.* rate (1943-44 as base) yielding a total of £21,685,000. Again for 1947-48 it is £12 million grant plus the cash product of a 10*d.* rate (1944-45 as base) or a total of £24,080,000.

As usual it must be remembered that the block grant, and so too these interim grants, are allocated to county and county boroughs. That is the end of it for the county borough, but in the case of administrative counties the grants must be divided among the local authorities within each county's jurisdiction. Excluding London, which is to be handled separately by the Ministry of Health, all other authorities below the county will receive an interim grant based on population data in 1936. The capitation grant will be as follows:

	1945-46	1946-47	1947-48
Non-County Boroughs and Urban Districts . . . . .	24 <i>d.</i>	27 <i>d.</i>	30 <i>d.</i>
Rural Districts . . . . .	8 <i>d.</i>	9 <i>d.</i>	10 <i>d.</i>

The act also provides that the entire capitation grant shall be paid and no portion may be withheld by the County Council. Moreover, if the interim grant received by the county is not enough to pay the capitation grants to its sub-authorities, the county council must provide the deficiency from its own resources. The 1946 act also includes the administrative safeguards contained in Section 104 of the 1929 Act whereby the Ministry of Health may reduce the amount of the interim grant if the local authority fails to achieve reasonable standards or its expenditures are excessive.

It is presumed that between now and 1948 the government will undertake a thorough investigation into the whole structure of central-local fiscal relations. Meanwhile the government has promised the local government associations that when the block grant formula is again recalculated, they will include, as basic data, first, the addition to expenditures met from rates and the block grant, second, the expenditures met from the interim grant, and third, the expenditures met from war advances to needy authorities.



## DERATING INDUSTRY AND AGRICULTURE

An evaluation of the Local Government Act, 1929, would be incomplete without some attention being directed to the policy of derating properties such as docks and railroads. At the very outset, the White Paper outlining the 1929 proposals said:

The relief of industry is a primary reason for undertaking a scheme of this magnitude. . . . In considering the effect of these changes it must be realized that the rating relief and the changes in the machinery and finance of local government are connected parts of one single policy.<sup>22</sup>

Much of the dissatisfaction with the whole 1929 scheme is derived from the frequent complaints registered on derating. As expanding services bring larger rate burdens, the question is occasionally raised in Parliament. Thus when the interim grant was up recently for discussion it was urged that derating losses be considered in allocating the interim money, though the Government as usual demurred.<sup>23</sup> At another time, a local representative complained that the block grant "never gave anyone any satisfaction and very few people understood it." While derating was supposed to aid industry in developing and in providing employment "it will be found that it has gone to shareholders rather than to the development of industry."<sup>24</sup> The Government's stock reply to these Parliamentary questions was to point out that the "derating provisions of the Local Government Act, 1929, were enacted as a measure of reform of the system of local taxation and were accompanied by Government grants which are subject to periodical revision."

The position taken by most local government associations is that industry has become a burden on rates rather than rates a burden on industry. Much local expenditure is on services which are national in character and presumably are grant aided; insofar as industry is also national in scope the services required by it could also be considered quasi-national and aided accordingly. Thus new factories present special problems and increase local costs for sewerage, new roads, refuse collection, housing,

<sup>22</sup> *Proposals for Reform*, Cmd. 3134, 1928, pp. 3-4.

<sup>23</sup> *Parliamentary Debates*, Vol. 414, p. 428 (October 11, 1945).

<sup>24</sup> *Ibid.*, Vol. 395, p. 269 (November 30, 1943).

lighting, fire brigades, and police protection. Yet no compensation is received from the Exchequer for the derating of these new installations; neither does the industry contribute any substantial amount in rates, being 75 per cent exempted. While these new costs fall upon the rest of the ratepayers the benefits accrue to the nation-wide consumers of the industry. Finally, if such an industry moves out, the local authority cannot retract its services in that area very greatly and the fixed charges for improvements run on for years.<sup>25</sup>

One of the most important effects of derating was the narrowing of the tax base available to the local authority which in turn impaired its capacity to meet rising expenditures. This is less significant for some of the larger authorities with diversified resources, but it bore heavily on the smaller and / or financially weaker. A second important effect follows because industrialization is not evenly distributed over the country. Derating thus alters the relative positions of local authorities. These two effects, narrowing the tax base and increasing the dispersion between local authorities, may be seen in the following examples.

PERCENTAGE LOSSES IN RATEABLE VALUE DUE TO DERATING FOR SELECTED COUNTIES AND COUNTY BOROUGHES <sup>26</sup>

<i>Counties</i>	1929-30	1929-39	
	Percentage Loss	Percentage Loss	Percentage Gain
Low losses:			
Essex .....	4.0%		50.2%
Kent .....	7.3		28.6
Middlesex .....	1.7		56.2
Surrey .....	1.3		51.8
West Sussex .....	5.9		64.8
High losses:			
Cumberland .....	29.3%	23.2%	
Durham .....	29.1	21.6	
Lancaster .....	19.7	1.2	
Yorks-West-Riding .....	26.7	17.9	
Glamorgan .....	31.1	30.2	

<sup>25</sup> *Municipal Yearbook*, 1942, p. 60.

<sup>26</sup> Ministry of Health, *Statement: The Amount in the Pound of Local Rates*, 1930.

*County Boroughs*

## Low losses:

Blackpool .....	1.6%	26.5%
Brighton .....	1.0	26.1
Exeter .....	2.4	24.4
Southampton . . . . .	3.8	24.1
Coventry .....	11.6	46.8

## High losses:

Barrow-in-Furness .....	22.4%	6.4%
Bootle .....	25.8	19.9
Burton-upon-Trent .....	23.7	14.9
Rochdale .....	22.4	12.7
Merthyr Tydfil .....	22.0	25.9

An examination of these figures shows that some of the richer counties and county boroughs experienced very little narrowing of their tax bases as a result of derating. These same local authorities then grew and prospered so rapidly that by 1939 they had not only recovered these initial reductions in rateable value but enjoyed very substantial increases over 1929. The situation with the poorer authorities, some of which are chronically distressed areas, is strikingly different. There it appears that derating cost them 20 to 30 per cent of their tax base and even ten years later they had not recovered. Lancaster County, for example, snapped back as did Barrow-in-Furness which recovered most of its losses due to derating. These "recoveries" by 1939 simply mean that other classes of property increased or new industries, rateable at 25 per cent, moved in sufficiently to offset the earlier loss in derating.

At this point it is worth recalling the operation of the guarantee clause, whereby 75 per cent of derating losses were paid in the first and second grant periods while in the third grant period 50 per cent is now paid before any of the Exchequer Contribution is distributed through the formula. The loss in rate income due to derating was calculated as of 1928-29, and each local authority receives 50 per cent of such loss each year regardless of any subsequent recovery. This rigidity in the block grant distribution means that county boroughs like Barrow-in-Furness, and Coventry, or a county like Lancaster still receive sizable sums as reimbursement for derating losses that have long since been wiped out. To be sure, their 1939 rateable value would be still higher were it not for the derating, but that does not alter the fact that their position has improved

relative to other local authorities. Thus Barrow-in-Furness experienced the same percentage loss as Rochdale or Merthyr Tydfil. Since the reimbursement for loss of rates was frozen at 1928-29 levels, these cities continue to collect 50 per cent of these losses through the third grant period. Barrow still gets its reimbursement although its rateable value has returned to 1929 proportions while Rochdale and Merthyr Tydfil struggle along on a permanently narrower tax base.

The aggregate losses in rateable value due to derating amounted to £33,928,000 for England and Wales. This sum represented about 12 per cent of the rateable value as of April 1, 1929, and in the various discussions since that time, the local associations have claimed their rate poundages were 12 per cent higher than they needed to be.<sup>27</sup> One insistent Member of Parliament from Acton Borough Council may be cited as a typical example of the recurring complaints to Parliament on derating. He claimed that ratepayers in his borough were paying 3s. 2d. more per pound than they would have to pay were derating abolished.<sup>28</sup> The relevant data are as follows:

	Rateable Value	Rate Poundage
April, 1928 .....	£585,246	12s. 8d.
April, 1929 .....	770,768	10s. 8d.
October, 1929 .....	654,087	.....
April, 1944 .....	843,125	12s. 0d.

The rate poundage for the current year is even less than in 1928-29 *before* derating. Then, too, the rateable value has increased 70 per cent over 1928-29 so the revenue from such levies will be vastly larger than prevailed.

The factor which the local associations overlook, and which stands out in the above example of a single borough is the increase in valuation which took place between 1928 and 1929. Following the Rating and Valuation Act, 1925, an exhaustive survey was made of local governments in England and Wales whereby their valuations were brought up to date and placed on a more uniform basis. As a result total rateable value increased by 13.5 per cent in the same year that derating took place.<sup>29</sup>

<sup>27</sup> *Municipal Journal*, January 12, 1940.

<sup>28</sup> *Parliamentary Debater*, Vol. 414, p. 428 (October 11, 1945).

<sup>29</sup> Ministry of Health, *Statement: The Amount in the Pound of Local Rates*, 1930.

That is to say, rateable values increased as of April 1, 1929, by 13.5 per cent; whereupon derating went into effect October 1, 1929, and reduced the rateable values by 12 per cent. In a sense, therefore, local governments were simply back where they started; their gains through the new valuation offset their total losses through derating. Yet in the literature and Parliamentary discussions this point is never raised. The local associations measure their losses from April, 1930, and ignore the fact that their aggregate position was virtually unchanged. Not only was their position unchanged but the local governments now received a block grant from the Exchequer ostensibly to recoup them for rate income lost by derating. This conclusion is supported by the data on rateable value for the years in question.

RATEABLE VALUE: ENGLAND AND WALES <sup>80</sup>

April, 1927 .....	£258,879,000
April, 1928 .....	267,639,000
April, 1929 .....	291,579,000
October, 1929 .....	257,668,000
April, 1939 .....	318,828,000

The reference must go back to April, 1927, since the new valuations became effective in some of the rating areas on April 1, 1928, and in the balance of the rating areas on April 1, 1929.

To summarize these points, it may be noted, first, the derating losses were cancelled out by valuation gains effective the same year, second, the block grant was added on to compensate for derating losses, and third, the total rateable value by 1939 had more than offset any derating losses.

Another effect of derating, apart from narrowing the tax base and changing the relative positions of local authorities was to shift the cost of local government services from agriculture and industry to commercial property and private dwellings. The preliminary derating of agricultural land and buildings in 1896 and 1923 removed 50 per cent and then 25 per cent of the annual value from the local tax rolls. Thus by 1929, 75 per cent of agriculture was already derated, and the Local Government Act simply removed the remaining 25 per cent. The situation

<sup>80</sup> Ministry of Health, *Rates and Rateable Values* (for each of the years indicated).

at the time of the 1929 reforms as well as the effect of the two earlier derating acts may be observed in the following table.

PERCENTAGE OF TOTAL AMOUNTS RAISED BY RATES <sup>31</sup>

	1893-94	1927-28
Land .....	20.9%	3.6%
Railways and canals .....	9.3	4.3
Mines and quarries .....	6.1	2.0
Houses and factories .....	63.7	90.1
Total .....	100%	100%
Actual Amount Rates .....	£32,229,000	£173,456,000

In other words, as a result of derating 75 per cent of agricultural land, houses and factories had to pay 90 per cent of total rates which in the thirty-five year period had skyrocketed from £32 million to £173 million.

The effect of the 1929 derating may be ascertained from another table which is based upon rateable values in 1930-31 rather than rates collected.<sup>32</sup>

	Assessable Value		Rateable Value	
	Amount	Per cent	Amount	Per cent
Agricultural Land and Buildings .....	£ 7,460,305	2.5		
Crown Property ....	3,189,125	1.1	3,189,123	1.2
Industry .....	29,663,576	10.0	8,785,007	3.4
Freight-Transport ...	12,577,621	4.3	2,937,381	1.1
Dwelling Houses, etc.	242,871,530	82.1	242,517,799	94.3
Total .....	£295,762,157	100.0	£257,429,310	100.0

Thus the entire share of local rates falling on agriculture plus the larger portion originally borne by industry and transportation facilities has shifted to dwelling houses and non-derated property, mainly stores and commercial establishments. When this fact is set alongside the increase in average rate poundage from 10s. 10d. in 1932 to 13s. 10d. in 1942, the magnitude of the burden shifted is evident.

As noted in earlier chapters, the amount which fell on the Exchequer, £22 million or that part of the block grant earmarked for loss of rates, was raised by increasing national taxes on consumption, especially a 4d. levy on gasoline.<sup>33</sup>

<sup>31</sup> A. Abel, W. O. Atkinson, and C. H. Pollard, *Derating* (London, 1945), p. 7.

<sup>32</sup> *Ibid.*, p. 7.

<sup>33</sup> Above, p. 66.

In brief, the derating provisions of the Local Government Act shifted both the burden as of 1929 and future rate burdens of agriculture, industry, and transportation. The incidence of the then existing burden was shifted to national taxpayers through consumption taxes; the incidence of the future burden was shifted to other ratepayers in the community for they were forced to absorb the increasing rate poundage.

Criticism has frequently been directed at the reimbursement feature for rate losses due to derating, since they were calculated as of 1928-29. The total loss amounted to £22,292,203 and was stabilized at the sum indefinitely; thus the General Exchequer Contribution for 1945-46 includes the same sum for derating as it did in the first year 1930-31. No regard has been given to increases or decreases since 1928-29 in the annual value of derated properties, or rates levied in the pound, or general price levels. The local associations argue that if derated properties have increased in value through the years, the hypothetical loss due to derating has increased; consequently larger amounts should be contributed by the Exchequer to the pool from which the block grant is paid.

First, in the case of agricultural properties the trend in value over the ten-year period from 1929 to 1939 cannot be ascertained since agriculture has been removed from the Valuation Lists. But in view of the decline in agricultural prosperity during this period it seems unlikely that any over-all increase would have taken place. To this extent local authorities have actually gained by the fixed loss factor in the block grant, and were it to be recalculated at 1939 values, the hypothetical loss in rates would be smaller than they are now receiving from the Exchequer. This is true, *a fortiori*, in those instances where land once rated for agricultural purposes has been absorbed into housing projects. For such land the local authority really collects double rates, once from the Exchequer as a derating loss and once from the occupier of the property on its rateable value as housing.

Second, in the case of industry, it appears that rateable values have increased £583,744 between 1929 and 1939 or about 7 per cent; in terms of annual value this increase would be £4,178,671.<sup>81</sup> Local authorities have been deprived of this

<sup>81</sup> Abel, Atkinson and Pollard, p. 11.

increment in their tax base while no adjustment has been made in the General Exchequer Contribution. It will be instructive to note what areas enjoyed these increases in rateable value since the increase was not uniform throughout the country.

INDUSTRIAL RATEABLE VALUE <sup>85</sup>

(£000)

	1930	1939	Net Loss	Net Gain
Counties .....	4,104	4,615		12.4%
County Boroughs ....	3,441	3,186	7.4%	
London .....	1,240	1,568		26.4
	<hr/> 8,785	<hr/> 9,369		<hr/> 6.6%

When examined in detail it appears that the financially stronger local authorities enjoyed many of the gains while some of the highly rated and distressed areas worsened their position by losing large portions of their already scarce rateable value.

CHANGES IN INDUSTRIAL RATEABLE VALUE FOR SELECTED COUNTIES AND  
COUNTY BOROUGH <sup>86</sup>  
1930-1939

<i>Counties</i>	Gains		Losses	
	Percentage	1939 Rate Poundage	Percentage	1939 Rate Poundage
Buckingham ...	87%	12s. 2d.		
Essex .....	109	14s. 1d.		
Middlesex .....	94	12s. 2d.		
Surrey .....	83	10s. 5d.		
Durham .....	....	.....	16%	20s. 8d.
Lancaster .....	....	.....	16	14s. 1d.
Monmouth .....	....	.....	12	21s. 5d.
Glamorgan .....	....	.....	24	23s. 3d.
<i>County Boroughs</i>				
Coventry .....	50%	13s. 6d.		
Croydon .....	129	11s. 4d.		
Derby .....	48	15s. 2d.		
Southampton ...	64	11s. 9d.		
Bolton .....	....	.....	29%	16s. 0d.
Bradford .....	....	.....	52	17s. 1d.
Merthyr Tydfil ..	....	.....	61	30s. 6d.
Oldham .....	....	.....	46	17s. 0d.

As the above table indicates it was invariably the more prosperous cities and counties already enjoying low rate poundages that attracted new industry. In the case of Croydon and Essex

<sup>85</sup> *Ibid.*, p. 58.

<sup>86</sup> *Ibid.*, p. 12.



County the rateable value more than doubled in the ten-year period. The poorer areas with high rate poundages were the areas which could least afford reductions, yet suffered sizable losses in industry.

This suggests the conclusion that the poor areas are better off with a fixed block grant factor for loss due to derating. Were the losses to be recalculated on the basis of 1939 rather than 1928 their reimbursements would be drastically cut. On the other hand those local authorities which complain that their derating reimbursements do not take account of increased values are evidently the ones best able to forego the additional revenue.

Third, in the case of freight-transport properties the aggregate picture is just the reverse of that described in the case of industry. Rateable values declined by £997,600 or 34 per cent which would be equivalent to a shrinkage of £4,096,702 in annual value. In this instance, however, the losses are more evenly distributed over the country than is the case in industry.

FREIGHT-TRANSPORT RATEABLE VALUE <sup>37</sup>

	(Thousands of Pounds)		
	1930	1939	Net Loss
Counties .....	£1,583	£ 978	38%
County Boroughs .....	725	472	35
London .....	629	490	22
	2,937	1,940	34%

This sharp drop in rateable value was not a result of reduced facilities but followed from a legal decision on the basis of assessment laid down by the courts in the Southern Railway case and upheld by the House of Lords. As the details of this case are not relevant here it will suffice to say the decision cut the annual value of railroads in half, from £10,340,000 to £5,125,381 and of this latter sum, 25 per cent or £1,281,345 was subject to local rates. Insofar as railroads are concerned, they now pay rates on only one-eighth instead of one-quarter of the annual value contemplated in the 1929 act.

Notwithstanding these losses the block grant factor continues unchanged. Hence local authorities as a whole are benefited by keeping the reimbursement for derating as it was originally

<sup>37</sup> *Ibid.*, p. 64.

calculated at 1928 levels, instead of recalculating it on the basis of 1939.

It appears from the foregoing that while industry increased its annual value by £4,178,671 the freight-transport loss of £4,096,702 virtually cancels the gain. Therefore local governments will break even in the aggregate. Thus to abolish derating or to substitute annual values as of 1939 would have a negligible effect on rateable resources as a whole. In fact the situation would be made worse in view of the distribution of the industrial gains; while the decrease in freight-transport was spread fairly uniformly over the country, it does not operate to equalize the uneven growth in industry. The net result would be to reduce the gains in the gaining areas and to increase the losses in the losing areas, as the following table will indicate.

COMBINED CHANGES IN INDUSTRIAL AND FREIGHT-TRANSPORT RATEABLE VALUES FOR SELECTED COUNTIES AND COUNTY BOROUGHES  
1930-1939 <sup>1a</sup>

	Gains		Losses	
	Industry	Industry and Freight-Transport	Industry	Industry and Freight-Transport
<i>Counties</i>				
Buckingham . . . . .	87%	35%		
Essex . . . . .	109	59		
Middlesex . . . . .	94	71		
Surrey . . . . .	83	26		
Durham . . . . .			16%	23%
Lancaster . . . . .			16	23
Monmouth . . . . .			12	17
Glamorgan . . . . .			24	29
<i>County Boroughs</i>				
Coventry . . . . .	50%	48%		
Croydon . . . . .	129	67		
Derby . . . . .	48	10		
Southampton . . . . .	64	31		
Bolton . . . . .			29%	30%
Bradford . . . . .			52	53
Merthyr Tydfil . . . . .			61	59
Oldham . . . . .			46	45

The conclusion which may be drawn from these considerations is that because of the drift of industrial development to the southeast counties the abolition of derating would provide little or no benefit to local authorities as a whole and would

<sup>1a</sup> *Ibid.*, p. 14.

accentuate the existing dispersion of rate poundages to the disadvantage of the poorer authorities. The constant factor in the block grant for derating losses, instead of being subject to criticism by local associations should be applauded. First, derating losses in agriculture are higher than if recalculated; second, industrial derating losses are higher for the poorer authorities on the 1928-29 base; third, freight-transport derating losses are much higher for all authorities on the old base because of recent legal decisions cutting the annual value of railroads in half. Therefore, since the block grant money in lieu of rate losses was calculated on the 1928-29 base the local governments, and especially the poorer ones, probably get a larger reimbursement than if the calculations were at 1939 levels. Another advantage occurred to local governments from the old base year because the price levels were down in the decade between 1928 and 1937 as may be seen in the following index.

WHOLESALE PRICES <sup>80</sup>

1913 = 100		1930 = 100	
April	1928..... 143.1	April	1931..... 89.1
	1929..... 138.6		1932..... 86.3
	1930..... 123.7		1933..... 82.8
	1931..... 105.8		1934..... 87.7
	1932..... 102.4		1935..... 87.5
	1933..... 97.2		1936..... 91.9
	1934..... 102.8		1937..... 109.0

Thus local authorities had the benefit of compensation based on a period of higher price levels than operated during the ten-year period. Despite this advantage of lower prices, rate poundages continued to rise under the pressure to expand services. It may well be that in the postwar period, with its inevitably higher costs and prices, these rate poundages will rise even more.

Up to this point, the discussion of derating has been restricted to the more specific economic effects which it had upon the tax base, the relative positions of local authorities, the incidence of local rates, and the consequences that might follow the abolition of derating. In short, it has been the effects of derating on local government finance. But before leaving the subject, it may be instructive to digress for a bit and consider the more general

<sup>80</sup> *Statistical Abstract for the United Kingdom*, 82nd No., p. 255.

aspects of derating as a national policy. To what extent has derating, especially of industry and freight-transport facilities, achieved the rather ambitious objectives assigned to it?

The basic objective outlined in 1928 was "to place the rating of these properties on a more rational basis," and thereby "contribute to the revival of agriculture and the basic industries."<sup>40</sup> Statements in the House of Commons in 1928 by Mr. Chamberlain and Mr. Churchill underscored the relief to productive industry as the first element in the plan which carried with it, by implication, relief for distressed areas. Chamberlain, after reviewing the rising burden of local expenditures concluded "that by the effect of this inequitable rating system, carried on under circumstances of modern competition, we have actually involved in ruin some of our greatest industries."<sup>41</sup>

It was rather curious that local rates which had primarily been blamed as the cause of a failing agriculture, were now the *cause célèbre* of a declining world trade and industrial prestige. Since rates were allegedly the root of the evil, the remedy was clearly to derate, as had been done in the case of agriculture in 1896 and 1923. Yet the first 75 per cent derating of agriculture produced such tenuous results that it is difficult to understand why the Government should seize upon the same panacea for curing industrial ills. Land for agricultural uses decreased at the following rate in England and Wales.<sup>42</sup>

	Total Agricultural Land (Acres)	Total Acres Cultivated	Population
1871.....	26,322,000	14,946,000	22,712,000
1913.....	27,129,000	11,058,000	36,070,000
1929.....	24,711,000	9,948,000	39,952,000

Be that as it may, the derating plan was launched along with the device of the block grant to adjust the distribution of the "new revenue."

The 1929 act together with its reforms was quickly engulfed in the depression that began in 1930 and more or less continued until the rearmament program of the late thirties. Derating could not, of course, do anything to check a slump of this magnitude and, unfortunately, its true effects were obscured by

<sup>40</sup> Cmd. 3134, p. 3.

<sup>41</sup> *Parliamentary Debates*, Vol. 216, pp. 1149-1151 (April 26, 1928).

<sup>42</sup> *Statistical Abstract*, p. 284 and p. 4.

the depression wave. It might even be that the derating program mitigated some of the industrial distress, and the depression in highly rated areas may have been less severe than it would otherwise have been.

This may be shown for agriculture by estimating the loss in income to "corn" farmers as a result of falling prices.<sup>43</sup>

	1925	1930	1935	1938
Wheat .....	12s. 11d.	9s. 6d.	4s. 9d.	8s. 4d.
Barley .....	14s. 6d.	8s. 7d.	8s. 1d.	13s. 2d.
Oats .....	10s. 0d.	6s. 11d.	6s. 10d.	8s. 6d.
	Drop in Prices 1929-35	Total Crop (Tons)	1935 Loss in Income	
Wheat .....	8s. 2d.	1,623,000	£13,254,500	
Barley .....	6s. 5d.	656,000	4,209,333	
Oats .....	3s. 2d.	1,138,000	3,603,617	
			<hr/> £21,067,450	

The combined effect of all agriculture deratings has been to relieve the farmer of about £15 million in annual rate burdens. Without this, the loss in 1935 income as a result of the depression would have been £36 million, or an amount 60 per cent higher than the farmers actually lost through prices alone. On the other hand if compared to the total product sold off the country's farms in 1937-38 and valued at £224,590,000 this £15 million amounts to 6.6 per cent.

Any attempt to judge derating of industry is virtually estopped by the depression, the effects of which completely mask the lesser effects which might have been expected as a result of derating. However, attention may be called to certain studies which relate the rate burden to other elements in the cost of specific commodities. Studies by the Balfour Committee in 1927 indicated that the extent to which rates are a burden is largely dependent upon the scale of operations, that is, the ratio of actual to potential output.<sup>44</sup> Like any fixed charge, rates may constitute an undue proportion of the cost of production when output is declining.

One such study made by Manchester University in an Indus-

<sup>43</sup> Abel, Atkinson and Pollard, p. 26.

<sup>44</sup> Balfour Committee Report on Industry and Trade, published in *Factors in Industrial and Commercial Efficiency*, Part I, 1927.

trial Survey of the Lancashire Area provides the following table.

LOCAL RATES EXPRESSED AS PERCENTAGE OF SELLING PRICE OF PRODUCTION <sup>45</sup>

	1927	1930	
		Based on Actual Output	Based on 1927 Output
Cotton Spinning .....	0.68%	0.21%	0.13%
Cotton Weaving .....	0.32	0.13	0.07
Textile Machinists .....	1.30	0.93	0.33
Biscuits .....	0.72	0.14	0.16
Preserves .....	0.48	0.15	0.12
Flour ..	0.18	0.04	0.03
Motor .....	0.17	0.02	0.05

Comparing the figures in the second and third columns will show the extent to which the relief due to derating was affected by the decline in production. Nonetheless for depressed industries like cotton the gain was impressive. On the other hand, for industries like food or motors where production either remained constant or increased, the relief was in the nature of a gift. In motor cars, due to the double effect of derating and increasing output from 1927 to 1930, the rates on a £200 car were reduced from 6s. 7d. to 11d.

Another type of comparison might be made between rates and the returns on capital. A study published by the National Association of Local Government Offices (NALGO) in 1933 was based on three comparisons in Middlesex County.

RATES AS A PERCENTAGE OF CAPITAL <sup>46</sup>

Company	Paid up Capital £	Rates 1932-33 £ s. d.	Percentage of Rates on Capital	
			Derated	Fully Rated
1.....	850,000	821 13 4	.097%	0.388%
2.....	400,000	423 17 8	.106	0.424
3.....	75,000	253 15 0	.338	1.352

Even in the most adverse case above, full rating would cost the company 1.3 per cent on its paid-up capital. In many other instances the full rate burden would be measurable in fractions of a per cent. Hence in comparison with the total value of the product or the capital employed, rates payable by a manufac-

<sup>45</sup> D. H. Chester, "Industrial Survey of the Lancashire Area," *Financial Circular*, June, 1933.

<sup>46</sup> Reprinted in Abel, Atkinson and Pollard, p. 33.

turer are a tiny and withal diminishing proportion. In evaluating derating as a policy for declining industries, the crucial question would be whether the effect of such assistance in reducing selling price will be sufficient to stimulate output. Such a question raises a host of considerations which cannot be explained here as they lie outside the particular scope of the present investigation. Before concluding this digression, it might be interesting to compare rate burdens in the coal industry which presents one of the most flagrant cases of distressed areas with poor cities and high rate poundages. The table below covers coal mined in Durham County in north England. Durham had an equivalent rate poundage of 20*s.* 8*d.* in 1939 and received the third largest block grant in the country, amounting to £1,703,000. As a result of derating, Durham lost 29 per cent of its rateable value and by 1939 the net loss was still 22 per cent.

COSTS AT COLLIERIES IN DURHAM COUNTY <sup>47</sup>

	Tons Produced	Total Cost Per Ton	Rates Paid per Ton		Wages Paid per Ton		Added Cost Fully Rated
			Amount	Percent	Amount	Percent	
1931	30,816,000	12 <i>s.</i> 8 <i>d.</i>	1.0 <i>d.</i>	.69%	7 <i>s.</i> 10 <i>d.</i>	62.2%	3 0 <i>d.</i>
1935	25,132,000	12 9	1.0	.71	7 9	60 8	3.0
1936	27,976,000	12 7	.8	.54	7 8	61.5	2.4
1937	28,719,000	13 3	1.0	.63	8 3	62.5	3.0
1939	28,499,000	15 6	1.2	.64	9 7	61.9	3.6

In the aggregate, derating brought substantial savings to the collieries. But when the relief is broken down to a ton basis, it becomes an insignificant item in the cost, and presumably in the price at which the coal was sold. If the collieries were again fully rated the added cost would be about 3*d.* per ton, or at 1939 production, an amount equal to 2.5 per cent of the total cost per ton. Even this is high, for it assumes a rate poundage of 20*s.* 8*d.* which would doubtless be lower if the derating were abolished and the collieries again paid their way.

The recent derating study by the Institute of Municipal Treasurers and Accountants, from which some of the above statistical exhibits have been drawn, reached certain conclusions. Since these conclusions will be given wide circulation in the local governments' future attack upon derating they may be

<sup>47</sup> Abel, Atkinson and Pollard, p. 74.

noted here. First, the secondary objective of reducing the divergence of rate poundage between local governments was not achieved; indeed, to abolish derating would accentuate the differences. In criticism of this view, data were given earlier in this chapter to show the downward shift in rate poundages and the narrowing in the dispersion after the 1929 act. To be sure, the rate poundages were eventually up again, even above pre-1929 levels, but that can hardly be blamed on the act. The inexorable pressure for expanding services during the decade of the thirties drove rates up and would have done so with or without derating.

Second, derating as a factor in promoting industrial recovery is difficult to evaluate in view of the overwhelming effects of the depression. Since rates are a fixed charge they are more apt to influence industry when output declines and the fixed charges become a large portion of total cost. However, when reduced to a unit basis it has not been shown that derating lowered unit costs or selling prices sufficiently to bring an increase in output. Without some such effect, derating was simply a subsidy to industry which continued in the doldrums.

Third, the objective of aiding distressed areas has hardly been achieved. Subsequent studies have pointed out that factors other than high rates are decisive in the location of industry. Thus in accessibility to markets, fear of industrial unrest, the psychological effect of chronic depression which undermines business confidence and reduces purchasing power, and finally financial difficulties in launching new industries all outweigh rates as a location factor. The distressed areas continue to be distressed while industry continues its drift to the midlands and southeast regions. Between 1930 and 1939, 93 per cent of the new rateable value in industry was located in five already prosperous counties.

Fourth, the Exchequer compensation for loss of rate income due to derating is not a grant, but simply a state subsidy of industry. To include this amount in the block grant conceals its origin; it might better be viewed as a central government contribution in lieu of rates instead of a grant. The inclusion of these losses in the General Exchequer Contribution is a form of rate pooling. It is not too successful from the viewpoint of equalization because the greatest contributions to the pool come



from those poorer authorities which would expect to receive rather than contribute. However, the local government association's proposal to eliminate this amount from the block grant and pay it directly to the authority involved is hardly a solution. Local conditions have altered since 1929; the war has had widespread effects upon the location of industry and population; finally to remove so large a sum as £22 million from the General Exchequer Contribution would vitiate its usefulness as an equalizer or in achieving any of the other objectives which it was intended to accomplish. Meanwhile, fifteen years have passed and the derating loss guarantee which now stands at 50 per cent in the third period, will drop to 25 per cent and then disappear. By that time the entire General Exchequer Contribution will be distributed by the formula and the derating losses of the more prosperous authorities will no longer be reimbursed. With that money available for distribution, the equalizing effects will appear much sharper than they do today.

## CHAPTER X

### SUMMARY

The general conclusions of the investigation were stated in Chapter IX insofar as they related to the Local Government Act, 1929, its block grant feature, and the policy of derating agriculture, industry and transportation. It now remains to summarize the past fifteen years of experience under that act as a phase in the development of central-local relations and to consider briefly the shape of things to come.

During the century of changes which go to make up the "development" of local government, it was only in the Royal Commission of 1928 that Parliament surveyed the entire problem. From 1834, when the Poor Law was reorganized and Boards of Guardians established to administer relief, to 1871, when the central hand was felt through the establishment of the Local Government Board and later absorbed in the Ministry of Health, to the reforms of 1880 and 1894, and finally to the Local Government Act, 1929, Parliament had provided only piecemeal legislation. It would initiate a particular service each time, grafting it on the old structure without considering too closely whether or not the structure was able to support it. Much of the legislation was permissive, enabling the so-called "progressive" local authorities to provide good services but doing little to bring the "backward" authorities up to the line. The situations which led up to the 1888 and 1929 reforms were often labeled "breakdowns" in local government, though the term is hardly an apt one. It might better be described as Parliament tailoring suits of different sizes for the growing boy. When they burst at the seams in 1888 and 1929, by dint of patching and stretching with new reforms a new and larger suit was provided. Meanwhile boards and commissions were puzzled by the phenomenon of the growing boy and sought by various means to restrain the expansion. The last effort was the iron suit of the block grant which presumably would enable local authorities to stand on their own feet and to compel any expansion to proceed slowly and systematically so that local

authorities might close some of the gap in services that existed between the rich and poor areas. Not even the iron suit prevailed, however, so again there is talk of "breakdown." Local government generally would probably have become an urgent political problem in the 1940's; however, the war intervened to postpone the inevitable review, and the situation has become all the more acute. As a final fillip, measures for reconstruction in social insurance, health, education, town and country, and housing, with their cumulative load on local budgets, have brought central-local relations to another impasse. In brief, local governments are strongly resisting further increases in rates while the Treasury is equally adamant about granting blank checks.

Out of this pattern of expansion, restraints, and further expansion, five main tendencies in the development of local government may be observed. First and foremost there was the gradual shift in emphasis from regulation to welfare, a primary purpose of local government. In the early view, local government was primarily an agency for the abatement of nuisances. Hence the Poor Law and relief functions were localized to check the nuisances from extreme poverty; the health functions arose from the abatement of unsanitary conditions and the reduction of epidemics; still other functions were designed to deal with the nuisances arising from crimes, public roads, and so on. But as the local authorities acquired a reforming spirit, or had it imposed on them from Parliament, the range of power expanded. Instead of abating nuisances, it was felt that local governments should alleviate sickness and protect health, provide education, maintain streets in better condition, offer good housing, expand the social amenities and utility services, and raise relief above subsistence levels. To meet the criticism of "extravagance" levelled by central boards and commissions, they hit upon the convenient doctrine of local, semi-national, and national services. It simply remained then to convince Parliament that a service was "semi-national" whereupon the Exchequer gates were opened.

The second tendency was the developing of local initiative and experimenting to meet new problems. The result was a widening and deepening process in local services, whereby the progressive authorities or, more correctly, those with ample

taxable resources, could initiate new services or improve the quality of the old. As this process took root in certain areas, Parliament, given time and sufficient prodding by financially less able authorities, would declare certain services to be in the national interest. Again the Exchequer gates were opened for percentage grants to encourage the expansion and then for equalizing grants to induce the so-called "backward" authorities to fall in step.

The third tendency was the increasing degree of national regulation and control over local government services. This increase was the result of three factors: (1) the elimination of distances in matters of transportation and communication, thus ending the virtual isolation of many local authorities; (2) the rise of a national "conscience" which called for higher standards and greater uniformity in services; and (3) the increased proportion of national funds placed at the disposal of local authorities. This control reached its zenith in World War II, when "local authorities were little more than local agencies of government departments from which they receive an ever growing volume of administrative directives."

The fourth tendency was the simplification in the structure and areas of local government. This is a relatively recent development since earlier expansions were achieved by creating an *ad hoc* authority to perform each function. At times of reform such as 1888, 1894, and 1929, certain of these *ad hoc* bodies would be abolished and their functions transferred to a larger authority. But once again new expansions would occur and a new set of authorities would be created, to be consolidated at the next overhaul! The present movement is away from small units and tends to assign more and more of the basic functions to a relatively large organization such as the County Council. Such has been the history of highways, hospitals, public health, poor relief and now most recently, education.

The fifth tendency has been the transfer of strategic services from local authorities to the central department or to some regional body. Thus Class I roads and unemployment relief have been completely taken away from local authorities and vested in the national government; the fire brigades have been out of local hands since the early part of the war with full responsibility divided among the twelve regions created for

wartime administration. Although the fire brigades are being returned to local authorities, their period of centralization will have profound effects upon the postwar cost and management.

These five factors have been at work, gradually and imperceptibly changing the basic premises upon which central-local relations have rested in the past. The primary significance of the block grant in this larger sense was to break down the old dichotomy of local versus national services, and so shift the grounds for financial support. The former grounds prescribed that rate revenues support certain services, the performance of which were "duties" of the local authorities, and income tax revenues support other services which were "duties" of the central government. The allocation of duties as between central and local governments was thus decisive, and within this framework the device of grants-in-aid flourished between 1834 and 1929. The grants were often conditional and of the percentage type; the conditional feature indicated the proper concern of the national government in seeing that its money was suitably applied, while the percentage feature indicated the proportion of national interest in the service at least by implication.

With the new premise introduced by the 1929 Act the decisive question will no longer be, Is it a local or national service? but rather, Who has the power or financial resources to accomplish the task? The power will then be employed whether the needs are as traditionally local as street cleaning, fire protection, or public lighting, or as broadly national as trunk roads and unemployment. This emphasis on the power of resources points to the enlargement of many local government areas if their independence is to be maintained. To this end, the leading local associations are urging drastic overhauls which would greatly reduce the number of primary authorities. Most of the existing governments would then be left as secondary agents of the enlarged all-purpose authorities built around the sixty-two county councils and eighty-three county boroughs.

The experience of World War II confirmed the value of local decisions: "The best provision is made when the local authority and its officers are allowed to follow their own methods provided they are granted adequate powers and resources." But

it also made clear the implication of the power thesis in the degree of control that was exercised. After six years of "government by circular" combined with their recollections of prewar conditional grants, local authorities see the handwriting on the wall. Moreover, when this central money amounts to 50 and 75 per cent of the total local revenues as is true for many counties and several county boroughs, the institution of independent local government threatens to become an empty fiction and local initiative will wither away.

The implications of the change in central-local premises introduced in 1929 have been obscured, first, because the block grant was only a small portion of total grant money, and second, the new money was only a minor item. Fully half of the block grant was not a grant at all but represented a central contribution in lieu of rates on industry and agriculture, and the rest was a lumping of several specific grants into one sum. If the proponents of local government have thus been loath to recognize the developments, the plans for postwar reconstruction can leave no doubt as to where the road leads. As noted in Chapter VIII, social insurance, health and education schemes will eventually increase the burden on local rates by 35 per cent over 1938-39 levels. Yet average rates in that year were already back to levels preceeding the 1929 reforms, and in some cases were substantially higher than in 1928.

The conclusion seems inescapable, that the situs of economic power will be the decisive factor for central-local relations in their next phase. The 1888 reforms were based on the familiar distinctions between local-national services and the premise that independent local government implied responsibility in local revenues. In 1929, when financial pressures dictated another reform, the issue was compromised by retaining most of the percentage grants and introducing a small portion of Exchequer aid on the new premise that local services should be aided, where needed, from the central reservoir of economic power, that is, national taxation. It now appears that this hybrid arrangement will be supplemented in the postwar period by accepting the hard fact that the situs of economic power for reconstruction lies in the Exchequer with its concomitant control.

## APPENDIX A

### PARALLEL DEVELOPMENTS IN GERMANY

The development of central-local fiscal relations prior to the ascendancy of the National Socialists in 1933-34 has been effectively covered by Mabel Newcomer.<sup>1</sup> The purpose of this appendix is simply to note a few of the changes that have occurred since the Nazis came to power, insofar as they parallel corresponding changes in Great Britain. The principal item of interest is the use of a highly complicated formula for division of grants between states (*Länder*) and local governments (*Gemeinden*).<sup>2</sup>

First of all several changes were made in the financial distribution between the Reich and the various states during these years, all in the direction of limiting the amount of money going to the states. Thus in 1935, the state shares in the income tax, corporation tax and turnover tax were reduced if they exceeded certain amounts. The reduction amounted to two-thirds of the excess.

Again in 1936 an absolute ceiling was placed on the total amount any state might receive from these three federal taxes. Finally in 1940, after the outbreak of the war, a sharp change was made whereby any state receiving more than RM 25 per capita was reduced to RM 25, while any getting less than RM 17 were raised to RM 17. Thus the upper and lower extremes were lopped off, and all states received from RM 17 to RM 25 per capita.

To meet these reductions, corresponding changes were made in the fiscal relations between the states and the local governments, and it is largely in this area that comparisons with British experience may be observed. In 1936 two principal changes were made: first, various functions supported in whole or part by the states were transferred to the local governments; and second, a formula was adopted to distribute to local authorities a share of the Reich money received by the state. The shift in education cost was substantial; for elementary schools, the costs of buildings and maintenance were placed on local governments as well as a minimum of 25 per cent of the salary costs; for high schools, local authorities were liable for contributions to the state. Then at least 60 per cent of secondary highways and public welfare costs were

<sup>1</sup> Mabel Newcomer, *Central and Local Finance in Germany and England* (1937).

<sup>2</sup> The materials in this appendix have been largely adapted from H. F. Abraham, "Intergovernmental Financial Relations in Contemporary Germany" (1943). His work, in mimeograph form, consists primarily of long extracts from the relevant German statutes.

put on local government. Highways had already been classified in 1934, and the support of Class I roads, deemed of military or national importance, was transferred to the Reich. National motor vehicle taxes were distributed among the local authorities that maintained through roads, 80 per cent going to Class I and only 20 per cent to Class II highways.

On the reverse side, the local real estate tax was no longer to be shared by the state after 1938. Thus the amount of Reich money to be handed over by the state varied from not less than 20 to not more than 30 per cent of the amount received. Moreover, of this amount 75 per cent was to be distributed outright by formula while 25 per cent was set aside for an equalization fund from which emergency grants might be made at the discretion of each state.

There were variations between states in the details of distribution though the guiding principle was determined by the Reich government. This principle was one of adjusting grants to the resources and needs of each local government and in so doing "confirm and strengthen individual responsibility." All states thus distributed the money on a differential measure of capacity and need; Prussia was the only block grant example, others preferring to make theirs in the form of percentage grants. Since Prussia furnishes the best parallel, attention may be limited to the block grant formula there employed.

The essence of the principle was to measure the capacity and then measure local needs. If the needs exceeded the capacity, the local authority was eligible for a grant equal to one-half this difference (Prussia only). On the other hand, if needs and capacity were equal, or the latter was larger, no grants were forthcoming.

#### MEASURE OF TAXABLE CAPACITY (*Steuerkraftmesszahl*)

In many ways the German formula vies with the British system in the complicity of its calculation. Whereas the British scheme measures capacity by rateable value, the German method calls for a measure based on average tax yields. Assessed values (*Einheitswerte*) multiplied by a 1 per cent tax rate (*Steuermesszahl*) yield something comparable to what the British call the produce of a penny rate (*Steuermessbetrag*). This product is determined by the Reich Ministry of Finance and therefore is uniform over the entire country. The local government then levies upon its taxable property some percentage of this norm. For example, if the national rate product is set at RM 1000 for real estate and the local authority desires RM 900 in revenue, its tax rate would be 90 per cent and it would issue a Decree of Taxation (*Steuerbescheid*) accordingly. Or if it required, say, RM 2000 from real estate, the local levy would be 200 per cent.



Another set of rate products is calculated by the Reich Government for local business taxes, that is, one for profits and another for capital. Then the local government in its turn levies some percentage of this norm upon the firms located within its jurisdiction.

An identical procedure is followed for the citizen tax, a sort of progressive poll tax measured according to income or property, whichever is higher. Again the local authority levies on each individual some percentage of the national product or norm.

The next step is, in effect, to array all the local authorities in Prussia according to the tax levied on each of these three classes of property. The median rate is then chosen as the basis for the formula. In other words, assume there were only three local governments with the following levies:

	A	B	C
Real Estate .....	80%	110%	130%
Business Tax . . . . .	200	250	275
Citizen Tax .....	400	500	600

The median percentage, 110 in real estate, 250 on business and 500 on citizens became the normal measure of tax capacity. Using essentially this procedure, the Prussian structure established the following medians or weights:

Agricultural Real Estate and Forests.....	80%
General Real Estate.....	200
Business Taxes (profit and capital).....	200
Citizen Tax .....	500

The actual tax yields of each local authority are then weighted by these percentages and the results totaled to give one figure for tax capacity. The following hypothetical example from the official "Justification" of the statute will make this clear.

	Tax Yield	Norm	Tax Capacity
Real Estate (agricultural and forest).....	75,300 @	80% =	RM 60,240
Real Estate (general) .....	259,000 @	200% =	518,000
Business Tax .....	140,000 @	200% =	280,000
Citizen Tax .....	36,200 @	500% =	181,000

Weighted Tax Capacity.....RM 1,039,240

#### MEASURE OF NEED (*Steuerkraftobergrenze*)

Translated literally this term would be "upper limit of tax capacity" but it has nothing to do with tax capacity *per se*. Rather it indicates the maximum local needs that will be recognized as qualifying for grant. As noted in the foregoing section, if tax capacity equals or

exceeds this upper limit, the local government is not eligible for a block grant. It remains to consider the factors which go to make up this measure of need, though here too, unhappily, the German formula outdoes the British for sheer complexity.

The first item known as the "basic factor" is selected in such a way that the total sum of money available for the block grant will just be exhausted by the sum of the individual grants. Thus if the total calculated needs exceed tax capacity by more than the block grant available, the basic factor will be adjusted downward. It is a variable item and is calculated for each fiscal year by the Prussian Minister of Finance; thus it was RM 45 in 1938 and RM 47 in 1939.

The first weight to be applied is the population itself which is known as the "chief item." Local governments are classified by size of population and a different percentage weight is applied to each class.

Population	Weight
1,000 and under.....	65%
2,000 .....	90
3,000 .....	95
10,000 .....	105
25,000 .....	125
50,000 .....	135
100,000 .....	140
250,000 .....	145
500,000 and over.....	150

Weights for intermediate sizes of population are simply interpolated. The weight increases with size on the ground that local expenditures per capita vary directly with size of the local government.

The second weighting factor, known as the "first additional item" is based upon the children or, under certain conditions, the proportion of laborers in the population. In Prussia it is children under 14 years of age that are counted; other states count them up to 16 years and still others count only children in school; one state (Lippe) has no weight for children.

The normals for Prussia were as follows:

Population	Normal
2,000 and under.....	26%
5,000 .....	25
10,000 .....	24
25,000 .....	23
50,000 .....	22
100,000 and over.....	20

As in the case of population, the normal figure could be derived by interpolation for intermediate sized local governments. The actual

weight is the surplus of children over each of these percentages, which thus serves to increase the "chief item." A constant relation is established whereby each excess of .1 per cent in children brings an increase of .4 per cent in the "chief item." For example, if a local government of 5,000 population has 25.5 per cent of its population in children under 14 years it has an excess of .5 per cent over the "norm." This would add  $.4 \times 5$  or 2 per cent to the amount of the "chief item."

Here again the weight varies with the population size on the ground that per capita expenditures attributable to children, for example, schools, increase with the size of the local government. It may be noted that the larger areas are favored by setting the norm as low as 20 per cent. Presumably they will have a substantial excess which increases their "chief item" or total weight.

For local authorities with more than 10,000 population an alternative to the children factor is offered and may be used if it produces a larger grant for the particular local government. The number of laborers together with their dependents is determined using a vocational classification in the census. This classification is limited to workers and craftsmen employed by industrial enterprises and excludes such as commercial employees or white collar clerks. The normal is set at 30 per cent so any local government with a larger proportion receives a weight; that is .3 per cent added to the chief item for every .5 per cent of the surplus in labor population.

Finally a special weight is introduced for certain communes situated in border districts, for example, Silesia which amounts to a flat 10 per cent of the "chief item."

These various weighting factors are then combined to ascertain the local government need qualifying for grant as follows: the chief item plus the children or labor weight is multiplied by the basic factor and that product multiplied by the population, for example:

$$(CI + WT) (BF) (Population)$$

An illustration may be worked out with the following assumed data:

Basic Factor	Assumed Data	Statutory Standards
Population .....	10,000	90%
Children under 14 years .....	2,450	2,400
Labor population .....	3,050	3,000

Since children are .5 per cent over the standard, the weight is calculated:

$$5 \times .004 \times (90\% - 30\%) = 1.2\% ^*$$

\* The subtraction of 30 per cent from the chief item of 90 per cent is an arbitrary factor the formula employs to cut down the full effect of the children weight.

The labor population is also .5 per cent over the standard and its weight is calculated:

$$1 \times .003 \times 90\% = 2.7\%$$

Since the labor weight is larger than the children weight, the local government will use it in its calculation of need.

The final formula thus appears as follows:

$$(90\% - 2.7\%) \times 45 \times 10,000 = 417,150$$

This aggregate figure is the upper limit of need eligible for grant and from this sum will be deducted the calculated tax capacity. The remainder, if any, represents the amount to be met by grant, though actually in Prussia, only one-half of this difference between need and capacity is adjusted. The probable reason was to conserve fiscal resources, but officially it was stated, "a complete adjustment of differences would be contrary to the principle of self responsibility for the commoners."

The outbreak of the war in 1939 reversed the plan of grant money and heavy levies were placed on local governments by the Reich. These annual contributions expressed as percentages of the rate produce were 30 per cent on agricultural real estate, 60 per cent on general real estate, 90 per cent on business taxes and 120 per cent on the citizen tax. In addition to these contributions, local governments had to meet 20 per cent of the relief cost for soldier families, though the amount was later cut to 5 or 10 per cent where the cumulative load became impossible for many local authorities. Finally, like the British counterparts, they had the costs of Air Raid Prevention and reduced yields on business taxes.

The points of parallel may be summarized: first, the German formula used tax yields rather than rateable value as a measure of capacity; second, it recognized difference in per capita expenditure due to mere size of population which the British did not do; third, in the British system, children under five had a more substantial weight than the children under fourteen in Germany; fourth, the employment factor was not used by the Germans though the use of laboring population as an alternate factor probably accomplished similar results. But then the British weight both children and unemployed whereas the Germans consider only one.

At the national level, the parallel continues since the Reich assumed support of Class I Roads in 1934 and the burden of public assistance in 1933, but otherwise the situation is reversed, for education and costs of other services were transferred from the larger state units to the local governments. The general shift in Great Britain has been in the opposite direction, from small local governments to larger units such as the county or county borough.

## APPENDIX B

DISCONTINUED GRANTS ABSORBED IN BLOCK GRANT, 1929<sup>1</sup>

## ROAD FUND:

Classification grants Class I and II Roads and Bridges.....	£ 3,158,000
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## PUBLIC HEALTH:

Maternity and Child Welfare.....	£1,069,000	
Tuberculosis . . . . .	1,788,000	
Venereal Diseases.....	305,000	
Welfare Blind.....	126,000	
Mental Deficiency.....	618,000	
	<hr/>	3,906,000

## CONSOLIDATED FUND: Local Taxation Account

Agricultural Rates, 1923.....	£3,415,276	
Cost Collection License Duties..	60,000	
Customs and Excises.....	1,107,260	
Liquor Licenses . . . . .	1,805,045	
Carriage Licenses.....	536,954	
Other Licenses..	291,588	
Estate Duties: 1894 Act.....	4,610,810	
Agricultural Rates Act.....	1,320,030	
	<hr/>	13,146,963

£20,210,963

Subtract grants formerly on Local Taxation Account but  
now on Civil Estimates:

Higher Education.....	£ 807,260	
Police.....	3,103,121	
	<hr/>	3,910,381

Losses on Account Grants.....	£16,300,582
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<sup>1</sup> *Civil Estimates*, Class X, 1930, p. 6.

## APPENDIX C

## INDEX OF GROWTH IN LOCAL EXPENDITURES, 1928-1941

(1928-29 = 100)

	ELEMENTARY EDUCATION		HIGHER EDUCATION		PUBLIC HEALTH		MENTAL DEFICIENCY	
	Total Expendi- tures	Rate Borne	Total Expendi- tures	Rate Borne	Total Expendi- tures	Rate Borne	Total Expendi- tures	Rate Borne
1928-29....	100	100	100	100	100	100	100	100
29-30....	102.7	106.0	105.3	105.1	105.2	105.2	106.3	105.8
30-31....	105.3	106.6	112.0	114.7	114.5	128.5	108.3	135.4
31-32....	102.8	108.6	119.9	111.9	121.6	136.9	108.5	137.6
32-33....	99.7	112.0	108.9	109.7	124.3	139.7	111.0	140.1
33-34....	100.8	115.4	109.5	112.1	129.3	144.5	114.6	143.9
34-35....	105.1	120.0	114.1	118.9	134.2	150.7	119.2	150.7
35-36....	110.8	122.9	123.4	128.4	141.4	158.7	126.1	159.5
36-37....	113.5	128.3	129.3	133.7	149.8	168.9	133.3	168.3
37-38....	116.5	132.0	135.6	139.8	163.9	183.2	144.4	183.4
38-39....	118.3	136.4	142.6	148.0	174.7	195.6	151.0	192.0
39-40....	116.9	132.7	137.6	143.6	172.8	193.8	154.5	193.4
40-41....	118.4	132.4	137.4	138.3	172.7	190.4	159.6	198.7

	POOR RELIEF		HIGHWAYS AND BRIDGES		POLICE		ALL OTHER	
	Total Expendi- tures	Rate Borne	Total Expendi- tures	Rate Borne	Total Expendi- tures	Rate Borne	Total Expendi- tures	Rate Borne
1928-29....	100	100	100	100	100	100	...	...
29-30....	101.3	100.4	106.7	102.1	101.6	102.2	100	100
30-31....	95.7	99.3	110.0	111.0	104.5	106.6	106	109
31-32....	91.1	94.6	108.8	111.7	104.4	105.9	110	111
32-33....	97.8	101.6	98.1	104.2	101.0	104.9	111	107
33-34....	101.4	105.4	97.1	104.2	101.0	103.7	114	109
34-35....	108.2	111.6	99.6	105.3	104.7	107.4	119	117
35-36....	113.0	104.3	102.0	107.4	112	115.0	115	133
36-37....	111.4	102.7	105.1	110.2	115.6	118.6	119	136
37-38....	102.7	105.8	104.0	109.7	118.6	119.9	127	148
38-39....	105.5	109.3	105.7	112.3	122.4	133.6	134	160
39-40....	105.5	108.9	93.7	101.7	145.5	138.2	134	153
40-41....	93.3	94.9	82.4	89.5	159.4	142.6	137	152

## APPENDIX D

## ADVANCES TO WAR-DISTRESSED AUTHORITIES

(Advances to local authorities to enable essential services without great increase in rates; negative amount represent repayment.<sup>1</sup>)

	(Thousands of Pounds)				
	1940-41	1941-42	1942-43	1943-44	1944-45
COUNTY BOROUGHs:					
Bootle.....	.....	100	162	.....	-74
Brighton.....	.....	70	62	.....	.....
Coventry.....	.....	100	.....	.....	.....
Eastbourne.....	.....	167.7	51.3	132.9	63.5
East Ham.....	30	167	171	193.2	-110
Great Yarmouth.....	68.8	95.9	2	36	70.6
Hastings.....	.....	58.5	70	54.8	88.0
Kingston-on-Hull.....	.....	289	58	-247	-100
Plymouth.....	.....	380	160	.....	220
Portsmouth.....	.....	172	164	.....	99
Southampton.....	.....	23	76	16	.....
Swansend.....	144	516	405	63.3	4.2
Swansea.....	.....	230	-158	.....	60
Wallasey.....	.....	197.3	-14	-50	.....
West Ham.....	350	886	492	.....	.....
BOROUGHs:					
Aldeburgh.....	1.4	.2	.....	.....	.....
Bexhill.....	.....	87	52.8	28.5	62
Bridlington.....	33.3	12.9	-11.0	-4.9	-1.5
Deal.....	44.9	.....	18	14.4	22.3
Dover.....	21.9	78.7	32.6	17	38.4
Folkstone.....	67.6	24.8	3	49.4	35.5
Harwich.....	6.7	11	.....	.....	.....
Hythe.....	9.6	18.3	5.8	4.8	14.8
Margate.....	89.4	89.5	73.0	62.1	59.3
New Romney.....	.....	4.9	1.7	.....	.....
Ramsgate.....	56	109	44.1	43.5	80.8
URBAN DISTRICTs:					
Broadstairs.....	12.2	29.7	32.6	16.6	22
Canvey Island.....	12.7	.5	-2	.....	.....
Clacton.....	36	73	23.6	-23.6	.....
Felixtone.....	.....	6.9	.2	.....	-4.1
Frinton and Walton.....	4.4	12	7.4	.....	3.7
Horne Bay.....	14	13.7	-2.1	8.4	.....
Mablethorpe and Sutton	.....	9.6	-1.8	.4	1.5
New Huntstanton.....	4.6	1	.....	.....	.6
Sandown-Shanklin.....	.....	10.1	4.4	15.7	15.3
Cromer.....	3.9	2.2	3.1	4.1	4.7
Skegness.....	.....	14	11.8	14.6	5
Ventnor.....	.....	..	2.4	2	-4.4
Whitley Bay.....	.....	4	.....	.....	-4
Whitstable.....	.....	.....	5.6	-2.2	1.2

<sup>1</sup> *Parliamentary Debates*, Vol. 416, pp. 351-352 (December 11, 1945).

## APPENDIX E

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## APPENDIX E

ANALYSIS OF RATE POUNDAGES, 1929-1945<sup>1</sup>

## LOCAL RATES LEVIED

		Metro- politan Boroughs	County Boroughs	Non-County Boroughs and Urban Districts <sup>2</sup>	General Rate in Rural Districts <sup>2</sup>
6s. less than 8s.	1944-45	..	..	..	4
	43-44	..	..	1	4
	42-43	..	..	1	5
	41-42	..	..	1	2
	40-41	..	1	1	6
	39-40	..	1	..	5
	38-39	..	1	1	17
	37-38	..	1	1	28
	36-37	..	1	3	30
	35-36	..	4	10	54
	29-30	..	4	4	50
8s. less than 10s.	1944-45	..	4	16	71
	43-44	..	5	23	86
	42-43	..	4	26	87
	41-42	..	3	21	79
	40-41	..	2	29	81
	39-40	..	4	26	82
	38-39	..	6	47	121
	37-38	2	7	69	171
	36-37	2	10	91	203
	35-36	4	7	149	238
	29-30	5	6	129	211
10s. less than 12s.	1944-45	3	10	162	155
	43-44	..	9	185	156
	42-43	..	10	192	168
	41-42	..	10	188	167
	40-41	..	12	187	183
	39-40	7	14	206	186
	38-39	10	16	250	189
	37-38	17	18	302	160
	36-37	17	19	337	149
	35-36	15	21	324	118
	29-30	15	16	308	226
12s. less than 14s.	1944-45	12	20	269	143
	43-44	15	20	265	136
	42-43	15	20	269	131
	41-42	15	20	262	135
	40-41	16	21	275	138
	39-40	14	19	279	120
	38-39	12	18	299	85
	37-38	6	22	283	80
	36-37	6	17	277	59
	35-36	6	17	261	53
	29-30	6	22	305	104
14s. less than 16s.	1944-45	11	12	238	59
	43-44	11	15	222	48
	42-43	11	15	219	46
	41-42	11	14	226	52
	40-41	10	12	218	36



## APPENDIX E—CONTINUED

ANALYSIS OF RATE POUNDAGES, 1929-1945<sup>1</sup>—*Continued*

		LOCAL RATES LEVIED		Non-County Boroughs and Urban Districts <sup>2</sup>	General Rate in Rural Districts <sup>2</sup>
		Metro- politan Boroughs	County Boroughs		
14s. less	39-40	5	16	202	43
than 16s. (cont'd)	38-39	4	18	138	35
	37-38	1	19	133	23
	36-37	1	19	117	22
	35-36	2	18	107	14
	29-30	1	15	166	42
16s. less	1944-45	1	27	111	25
than 18s.	43-44	1	24	103	27
	42-43	1	21	92	20
	41-42	1	22	100	21
	40-41	1	22	86	15
	39-40	1	18	80	22
	38-39	2	14	67	15
	37-38	3	9	54	13
	36-37	2	12	46	13
	35-36	2	10	40	13
	29-30	2	15	60	10
18s. less	1944-45	2	7	48	13
than 20s.	43-44	2	7	48	14
	42-43	2	10	46	11
	41-42	2	9	41	14
	40-41	2	9	46	13
	39-40	2	8	35	9
	38-39	1	8	34	10
	37-38	..	5	34	4
	36-37	1	3	39	10
	35-36	..	5	32	3
	29-30	..	4	28	5
20s. and over	1944-45	..	3	37	7
	43-44	..	3	34	6
	42-43	..	3	36	9
	41-42	..	5	42	7
	40-41	..	4	39	5
	39-40	..	3	53	10
	38-39	..	2	45	5
	37-38	..	2	26	1
	36-37	..	2	29	1
	35-36	..	1	26	1
	29-30	..	1	38	5

<sup>1</sup> *Municipal Yearbook*, 1938, p. 162; 1941, p. 140; 1945, p. 32.<sup>2</sup> Consolidations of local units cause some variations in the total number represented for different years. The totals are as follows:

1938-45.....	29	83	881	477
1937-38.....	29	83	902	480
1936-37.....	29	83	939	487
1935-36.....	29	83	949	494
1929-30.....	29	83	1,038	635

## APPENDIX F

## WARTIME GRANTS UNDER EMERGENCY LEGISLATION

PART I<sup>1</sup>

MINISTRY	NATURE OF CLAIM	ESTIMATE OR ACTUAL	RATE OF GRANT
<i>Period of Claim: Monthly</i>			
Home Office.....	Pay of Police War Reserve.....	E	100%
M. of Food ...	Reimbursement: Food control expenditure	A	100%
<i>Period of Claim: Quarterly</i>			
M. Home Security.....	Pay of whole time ARP personnel...	A	100%
	Reimbursable pay: Fire Guard personnel		100%
" " "	Pay of whole time AFS personnel ...	A	100%
" " "	Removal and storage of salvaged furniture	A	100%
Registrar-General.....	National Registration expenditure. .	A	100%
M. of Fuel and Power....	Fuel and Lighting Order; Retail Coal Prices Order	A	100%
<i>Period of Claim: Annual or Irregular Periods</i>			
Home Office (Fire Brigades)	Expenditure on National Fire Service	E A	100% (Less Formula)
M. Home Security.....	Compensation premises taken for Civil Defense purposes	E A	100% 100%
" " " '38-'41	Air-raid general precautions expenditure (including shelters)	E A	Formula (100% of Shelters)
" " "	Hire of vehicles and war damage to private vehicles used in Civil Defense	E A	100% 100%
" " "	Auxiliary Fire Service general expenditure	E A	Formula Formula
Board of Trade.....	Expenditure of gas undertakings on anti-glare measures	A	50%
" " "	Measures to secure due function of gas undertaking	A	50% and 25%
" " "	Additional Emergency .....	A	50%
" " "	Equipment of gas undertakings.....	A	25%
" " "	Air-raid shelters.....	A	35%
" " "	Electricity Dept. and measures to secure due functioning of service	A	Various
" " "	Water Dept. Air-raid shelter.....	A	35%
" " "	Water Dept. measures to secure due functioning of undertaking	A	50% and 25%
M. of Health.....	Expenditure on Civil Nursing Reserve	A	100%
" " "	Capital expenditure on emergency hospitals; that is, works of adaptation and protection of hospitals and local purchases of equipment for first-aid posts	E A	70% or Formula
" " "	Expenditure under Part I, War Damage Act 1941; repairs to houses	A	100%

<sup>1</sup> *Local Government Finance*, Vol. 46, No. 4 (April, 1942), pp. 71-73.

## APPENDIX F—CONTINUED

WARTIME GRANTS UNDER EMERGENCY LEGISLATION<sup>1</sup>—*Continued*

MINISTRY	NATURE OF CLAIM	ESTIMATE OR ACTUAL	RATE OF GRANT
Home Security.....	Expenses incurred on measures for deterring landing of enemy aircraft	A	100%
Board of Trade ...	Provision of air-raid shelters in commercial buildings	A	35%
M. of Health.....	Provision of accommodation and food for persons rendered homeless by enemy action (1940-41 only)	A	100%
" " "	Emergency services (Rest centers, emergency feeding, mobile canteens, civilian evacuation)	E	100%
" " "	Maintenance of emergency hospitals	A	100% of amount by Formula
" " "	Foreign war refugees	E	100%
" " "	Civilian evacuation (1940-41)	A	100%
M. of Food.....	Use of cold storage premises	E & A	100%
Home Security.....	Expenditure in (1938-39) on aids to movement	A	Formula
M. of Transport.....	Erection of road barriers	A	100%
" " "	Removal of highway signs	A	100%
" " "	Brickwork for lighting of barriers	A	100%
" " "	Lighting of road barriers	A	100%
Registrar-General.....	National registration expenditure	E	100%
M. of Fuel and Power....	Fuel and Lighting Order; Retail Coal Prices Order	A	100%
M. of Health.....	Deaths due to war operations: burial expenses	A	100%
" " "	Premises requisitioned or hired for first-aid post, ambulance, mortuary or emergency hospital	A	100%
M. Health and Home Security	Local purchases of equipment for casualty and rescue services, etc., for example, haversacks and pouches, rescue equipment, medical aid posts in shelters, etc.	A	100%
M. Home Security.....	Repairs to Home Office equipment: Auxiliary Fire Service	A	100%
M. Health and Home Security	Subsistence and travelling expenditures <i>re</i> investitures	A	100%
Home Security. ....	Estimated expenditure (1940-41) on aids to movement	E	Formula
" " "	Cleansing of public shelters	...	100%
" " "	Clearance of debris	E & A	100%
" " "	Reimbursement of subsistence allowances to fire guards on business premises (Local authority premises) fire guards	E & A	100%
" " "	Camouflage painting	A	50%
" " "	Camouflage netting	A	50%
Electricity Commissioners	Protection of plant	A	100%

## APPENDIX F—CONTINUED

WARTIME GRANTS UNDER EMERGENCY LEGISLATION<sup>1</sup>—Continued

MINISTRY	NATURE OF CLAIM	ESTIMATE OR ACTUAL	RATE OF GRANT
Home Security	Measures for securing due functioning of sewerage works		Approved Exp. may be included in ARP Grant Claim

PART II<sup>a</sup>

MINISTRY	NATURE OF CLAIM	RATE OF GRANT
M. Home Security	Compensation: premises taken for Civil Defense and AFS purposes	100%
" " "	Repair to War Damage to roads	100%
" " "	Release from contracts and loss on sale of materials—Sept. 1938 crisis	100%
" " "	Supplementary grant ARP (Circ. 124/42)	Formula
" " "	Civilian deaths Exp. 1940-41	Formula
Home Office	Hire of vehicles	100%
" " "	ARP. Expenditure of Commissioner of Metropolitan Police District	To cover special case
M. of Health	Expenditure under Part I War Damage Act 1941: Temporary works and costs of works payments	100%
" " "	Pathological Laboratories Emergency Hospital scheme	100% less charge for Council's own use
" " "	Treatment of VD: capital exp., and maintenance (Additional clinics)	75%
M. of Food	Potato acreage	£10 per acre
" " "	Restaurants and emergency feeding capital expenditure	100%
" " "	Allowance for milk consumed by expectant mothers, nursing mothers, and children under five, while in institutions registered under National Milk Scheme	Formula
War Office	Rates on premises occupied by troops to assist Road and Debris Schemes	100%
M. of Agriculture	Ploughing park land	£2 per acre
" " "	Land fertility schemes (lime supplied)	50% cost lime
M. of Works	Salvage of iron and steel; compensation for railings removed; out of pocket expenses	100%
M. of Supply	Kitchen waste scheme—cartage of waste food	9d. per ton mile up to 30 miles
War Damage Commission	Cost of works re. war damage to Local Authority Property other than houses	100%
" " "	Cost of war damage to sewers	Agreed
Treasury	Grant in lieu of rates on property occupied by Crown for public service	Rateable value as listed

<sup>1</sup> *Ibid.*, Vol. 47, No. 7 (July, 1943), p. 121.



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